August 9, 2021

Sandra Thompson

Acting Director

Federal Housing Finance Agency

Tenth Floor

400 Seventh Street, SW

Washington, DC 20219

Subject: RFI on Executive Compensation at the Regulated Entities

Dear Ms. Thompson:

On behalf of the DUS Peer Group[[1]](#footnote-1), the DUS Advisory Council[[2]](#footnote-2) welcomes the opportunity to comment on the request for information (RFI) on Executive Compensation at the Regulated Entities published on June 10, 2021. The DUS Advisory Council represents the 23 DUS Lender firms that do business with Fannie Mae and who are also the primary partners with Freddie Mac in their multifamily business. As our business is originating, underwriting and servicing multifamily loans, our comments will primarily pertain to the multifamily business of these entities, as well as certain elements shared with the single-family business.

We appreciate the FHFA’s ongoing efforts to ensure a viable and vibrant housing finance system, and support the FHFA’s stated intention of ensuring that both Fannie Mae and Freddie Mac operate in a safe and sound manner and fulfill their statutory missions while providing compensation to executive officers that is reasonable and comparable. Our concern is that the current restrictions do not provide compensation levels sufficient to attract and retain a high level of talent and that high levels of turnover could jeopardize the ability of the entities to assure that financial stability is maintained and taxpayer interests are protected.

As we directly share risk with Fannie Mae, we and FHFA have a mutual interest in formulating well-functioning operations at Fannie Mae that requires attracting and retaining the best talent and compensating those employees in a manner that adequately incentivizes them. We believe that compensation should be constructed in a manner that aligns with the missions of the entities, supports key business strategies and objectives, pays for performance, is market competitive with similar size institutions and functions and responsibilities, and encourages short- and long-term retention.

Our response to a number of the questions contained in the RFI follow.

1. Compensation levels at the Agencies need to be market based and high enough to retain and attract top talent in the industry.  Given the combined Multifamily portfolios of approximately $600 billion and annual new loan purchase volume exceeding $150 billion, the stakes are high. Experienced, competitively compensated management and staff are important to ensure continuity, high quality loan purchases and portfolio surveillance.  Not doing so could lead to financial instability, increased credit risk and a threat to taxpayer interests. The Request for Input focuses on Executives; however, we believe the goal should be competitive compensation throughout the organizations because a consistent approach to compensation at all levels ensures alignment, reduces attrition, and optimizes succession planning.
2. Based on the public information available, the compensation plans at the President and Executive Vice President (“EVP”) levels appear to be in-line with market peers. However, we do not believe that the current compensation structure at the Senior Vice President (“SVP”) and Vice President (“VP”) levels of the enterprises adequately incentivizes performance nor is it adequate for attracting and retaining executive officers. Incentives based on performance are an important part of compensation in any financial services organization and should be prevalent in the enterprises’ compensation system.

Compensation studies from third party consultants provide valuable insight on compensation structures for Senior Management at large commercial real estate institutions. This data demonstrates salaries, bonuses, and deferred compensation to be heavily weighted toward bonuses and deferred compensation. In many of these companies, the base salary comprises 20-25% of the annual compensation with bonus awards comprising the remainder. This appears to be consistent with the current President and EVP level compensation but a similar construct should be implemented at the SVP and VP levels to stem the recent tide of turnover experienced at the enterprises at these levels. We recommend that the base salary comprise 30 to 40% of the annual compensation with bonus compensation equal to 60 to 70%.

In terms of determining bonuses, we agree that meeting mission-based objectives are very important to align the Agencies’ management focus on supporting affordable and workforce housing.  In addition, there need to be objectives around financial performance as well as the credit performance of the portfolio.  Senior Management of successful private financial institutions need to meet or exceed targets around profitability while effectively managing credit risk and loan defaults.  That discipline is also important for the Agencies. Additionally, there should be specific incentives and performance objectives around Diversity, Equity and Inclusion.  As the focal point of the Mortgage Industry, the Agencies need to demonstrate leadership in these critical areas.  In setting Multifamily staff bonuses, we recommend that half be based on individual performance against goals and half be based on Multifamily’s performance financially and against scorecard and mission goals.

We believe that deferred salary should be included as an incentive to retain employees. Currently, deferred salary is rather meaningless at Fannie Mae as it is in cash with no upside. It does not help in retention of employees because the amounts are not that significant and can be equivalent to a signing bonus at another institution. Our recommendation of 30-40% base salary with 60-70% bonus should include a component of bonus (we recommend 30%) that is deferred. This approach, we believe, would provide an incentive for employees to remain with the enterprises. As to the deferred portion, we recommend a 3-year vesting period with release of one third per year.

1. Turnover has been a major issue at Fannie Mae and Freddie Mac over the past three years and inability to adequately compensate employees compared to other financial services companies has played a role in that turnover.

In the past two and one-half years, since January of 2019, both Fannie Mae and Freddie Mac have lost a significant number of employees who have had a great deal of institutional knowledge and experience. From our experience with Fannie Mae, we have noted that 11 key staff: one Vice President, five Directors and five Chief Asset Managers/Chief Risk Managers have left in that period. All of these individuals left for compensation and upside potential. All had at least four years of experience and some had over 15 years. Fannie Mae’s strategy has been to attract individuals with a strong real estate background; only in the past few years have they focused on hiring more junior people and training them.

In addition, it is our understanding that Fannie Mae has not had a a raise in bonus pools or base salaries in a number of years, despite notable achievement in financial performance. In fact, the bonus pools for Multifamily are structured so that high performers can only be rewarded by reducing everyone else in the pool; the bonus pool is based on everyone being an average performer. There is no incentive to perform at a higher level. We recommend that bonus pools for Multifamily be created at a level reflective of both the financial performance of Multifamily and the performance against Multifamily scorecard and mission goals. Currently bonuses are almost guaranteed at certain levels and this process should be changed to reward performance.

1. In the multifamily area, market data for executive level positions is readily available in the financial services industry. While companies of comparable portfolio size would be difficult to determine, the scope of responsibilities in overseeing commercial/ multifamily operations between Fannie Mae and their partners in the private sector could be considered comparable. Executives at the enterprises are as deeply skilled and experienced as the senior level managers at the DUS lenders and at bank divisions which originate and service multifamily/commercial loans, and they should be compensated commensurately.

There are a number of companies that could be considered comparable, including Walker & Dunlop, Arbor Commercial Funding, Wells Fargo Multifamily Capital, PGIM Real Estate, and KeyBank National Association.

1. We do not believe that the compensation of senior officers should be affected by the fact that each enterprise remains in conservatorship or the fact that executive officers are not subject to return objectives or shareholder demands. The fact that the GSEs do not receive any stock options or stock as part of their compensation should, in itself, compensate for not having those obligations. The senior officers at the agencies are responsible for a larger proportion of the debt obligations than their senior counterparts. Their current salaries are not reflective of the scope of these responsibilities. In addition, the fact that the enterprises are subject to capital standards, mission goals, etc. imposed by FHFA or statute should be considered.

We believe that the compensation structure utilized for the enterprises during conservatorship should be similar to that used in a post-conservatorship status. It is important that when the enterprises move from conservatorship to post-conservatorship, there not be disruption to the market, and the compensation system should be easily transferable to a private company status.

1. We do not believe that the compensation of executive officers should include a provision for clawback of compensation that has already been paid.  The existing compensation structure already includes the concept of “at risk” amounts that are paid over several years.  Those amounts may be reduced if Conservatorship Scorecard goals are not met, or based upon corporate and personal performance.  We believe that providing an avenue whereby executives could be required to recompense the Enterprises for amounts already received would serve as a severe impediment to attracting and retaining key talent.  A clawback structure could lead to significant turnover, create a disruption to the market, and interfere with the Enterprises’ ability to achieve their mission.  Should FHFA determine that the existing at risk deferred salary structure is inadequate to align goals and compensation for executive officers, a longer deferral period would be more effective.  As noted elsewhere in this response, however, the current deferred salary of 30% is deemed low when considering positions within the comparator group.  The deferred salary would likely need to be increased even further if the deferral period was lengthened.

We thank you for considering our concerns in the formulation of a proposed rule governing Executive Compensation at Fannie Mae and Freddie Mac. Should you have any questions or need additional information, please feel free to contact Janette O’Brien, Chair, the DUS Advisory Council, at janette\_obrien@keybank.com.

Sincerely,

The DUS Advisory Council

1. 1 The Delegated Underwriting and Servicing (DUS) Peer Group is a coalition of lenders who originate the preponderance of multifamily mortgages that are sold to or securitized by Fannie Mae. Most of our members also utilize the Freddie Mac and Ginnie Mae programs for financing rental housing. Our members are key participants in the multifamily rental housing market as originators, securitizers and servicers of mortgages on rental housing for millions of U.S. households. For a complete list of DUS lenders who form the DUS Peer Group, see the following: [DUS Lenders | Fannie Mae Multifamily](https://multifamily.fanniemae.com/about-multifamily/our-partners/dus-lenders).

 [↑](#footnote-ref-1)
2. The DUS Advisory Council is elected by the DUS Peer Group to represent the DUS network. The members of the DUS Advisory Council include Arbor Commercial Funding LLC; Berkadia Commercial Mortgage, LLC; CBRE Multifamily Capital, Inc.; KeyBank National Association; M&T Realty Capital Corporation; Newmark; NorthMarq; PGIM Real Estate; Walker & Dunlop, LLC; and Wells Fargo Multifamily Capital. [↑](#footnote-ref-2)