

November 9, 2018

To The Federal Housing Finance Agency

Response to Notice of Proposed Rulemaking on Enterprise Capital Requirements

RIN-2590-AA95

Introduction

On July 17, 2018, FHFA published in the Federal Register a Proposed Rule on Enterprise Capital (Sections 1240.31 – 1240.45), proposing new capital requirements for Fannie Mae and Freddie Mac (together, “the GSEs”). We welcome the opportunity to provide comments on the Proposed Rule as it relates to the multifamily businesses of the GSEs.

As set forth more fully herein, we believe that the Proposed Rule disadvantages Fannie Mae’s DUS Program by requiring far more capital than is needed, which will result in Fannie Mae becoming uncompetitive, thereby reducing competition in the multifamily market. The robust thirty-year track record of the Fannie Mae DUS Program, through several macroeconomic cycles, evidences that it can withstand significant market changes without the need for additional capital.

About Walker & Dunlop

Walker & Dunlop, Inc. is a publicly traded company which has been listed on the New York Stock Exchange since December 2010. Walker & Dunlop, LLC (“W&D”), a wholly owned subsidiary, includes all of our loan origination and servicing operations. W&D has over 700 employees located throughout 30 offices in the United States and has a loan servicing portfolio of over \$80 billion.

Founded in 1937, W&D is one of the largest multifamily lenders in the United States. In 2017, W&D originated \$20 billion in multifamily loans; year to date through September 30, 2018 we have originated \$14 billion in multifamily loans. W&D was named one of the first Fannie Mae DUS lenders in 1988 and acquired a license to originate Freddie Mac loans in 2009. In 2017, W&D was the number one Fannie Mae multifamily lender (\$9 billion) and the number three Freddie Mac multifamily seller/servicer (\$8 billion).

W&D is one of the few companies with such a largescale multifamily platform with both Fannie Mae and Freddie Mac, giving us a deeply informed perspective on the GSEs’ operations. And having grown from a small, family-owned independent commercial mortgage broker into a large, publicly-traded real estate finance company, we have a broad perspective on all the market participants and how Fannie Mae and Freddie Mac interact with their partners, both big and small.

Risk Sharing and Retention

Fannie Mae’s and Freddie Mac’s businesses to obtain and recycle capital in the secondary mortgage market are distinct and well described in the Proposed Rulemaking materials.

The Fannie Mae DUS Program, where the lender originating the loan shares in the risk of loss with Fannie Mae for the life of the loan, has been one of, if not the most successful securitization programs ever designed and implemented. Fannie Mae DUS lenders are required to retain fixed amounts of restricted capital to honor their loss sharing obligation, and ultimately, Fannie Mae can take away the very valuable servicing rights of the DUS lender if there is a loss to be covered. Importantly, Fannie Mae DUS lenders retain exposure for their share of any losses on every loan they originate and sell.

While many Fannie Mae DUS lenders share any potential loss on a pari passu basis with Fannie Mae, W&D is one of the few lenders which elects to retain the “top loss” credit exposure. We remain responsible for the first 5% of all loan losses, as well as 25% of the next 20% of losses and then 10% of any remaining losses (with a maximum loss of 20% of the original loan amount). W&D retains the top loss position because we have great confidence in our ability to assess, underwrite and retain risk on the loans we originate for Fannie Mae. This alignment of interest between DUS lenders and Fannie Mae is one of the most important reasons the DUS Program has been so successful for over three decades.

Under the Freddie Mac Seller/Servicer Program, Freddie Mac purchases loans originated by its lender network, aggregates them, and creates pools of loans that are securitized through the K-series platform. The non-guaranteed bonds, typically representing the bottom 15% of the pool, are sold to private market participants often referred to as “B-piece buyers”. Freddie Mac’s guaranty only applies to the top 85% of the bonds, which typically are investment grade securities that only incur losses after the privately-owned B-Piece bonds are wiped out. In effect, Freddie Mac is only providing catastrophic insurance to the bondholders.

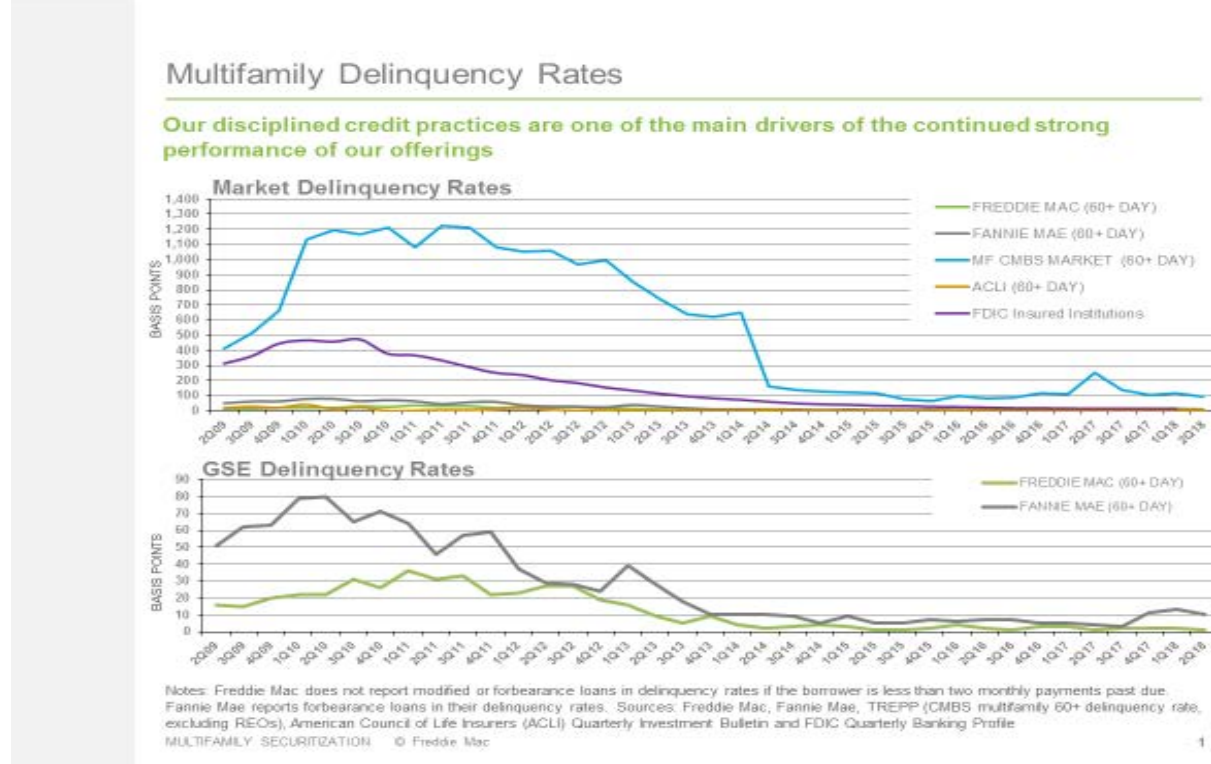
Historical Losses

Since 1990, W&D has originated 4,201 Fannie Mae multifamily loans totaling \$50.3 billion. Of those loans, 95 loans totaling \$611.7 million (1.22%) have gone into monetary default. Thirty-eight of the defaulted loans, totaling \$227.6 million (0.45%) have resulted in foreclosure, and total losses on the loans have been \$80.3 million (0.15%). This incredible credit loss track record in partnership with Fannie Mae is summarized below:

Fannie Mae Portfolio Foreclosures (1990-2018)					
Originated UPB (\$MM)	% UPB Defaulted	% UPB Foreclosed	Total Loss (\$MM)	W&D Loss (\$MM)	W&D Loss - % UPB
50,255.90	1.22%	0.45%	80.3	20.9	0.04%

As of September 30, 2018, W&D holds \$109 million in restricted reserves as a backstop to cover any losses on Fannie Mae loans we originate, and over thirty years, we have never used a single dollar of reserves to fund our total losses of \$21 million; rather, we have funded all losses with operating cash flow. As an aside, we are not aware of any DUS lender needing to tap into their reserves to fund any loan losses, ever. One element of the Fannie Mae loss sharing arrangement that did not appear to be taken into consideration in FHFA’s Proposed Rule is Fannie Mae’s ability to take, transfer and sell a DUS lender’s entire servicing portfolio. Our Fannie Mae servicing portfolio, as of September 30, 2018, stood at \$34.2 billion of loans and had an estimated fair value of \$604 million. With credit worthy third parties like W&D taking the first loss position on loans we originate, together with substantial collateral in reserves (which have never been used), and an extremely valuable servicing portfolios as additional collateral, the proposed capital requirements for the Fannie Mae DUS Program are superfluous.

Looking at overall historical defaults/losses for the Fannie Mae DUS Program shows exceptional credit quality over many years. While we like to highlight W&D’s exceptional credit loss track record, the entire Program has suffered de minimis losses since its inception and has never had capital or liquidity challenges due to losses for Fannie Mae or any DUS lender throughout the Program’s thirty-year history.



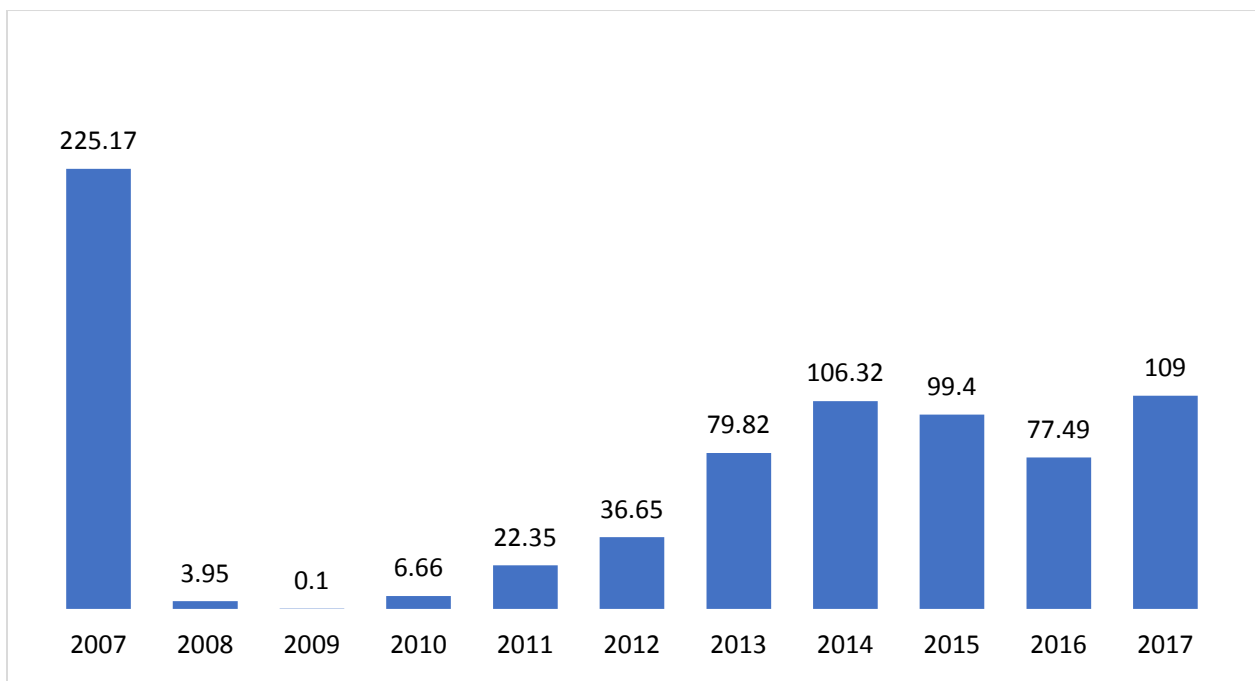
Discussion and Analysis of Impact on Fannie Mae of Proposed Rule

Both the Fannie Mae and Freddie Mac models for multifamily loan origination and securitization have been very successful in providing capital to the multifamily market in the U.S. while incurring insignificant losses. As the market ebbs and flows, it is critical to maintain

both models and to allow Fannie Mae and Freddie Mac to compete with each other. The new capital requirements should promote that, and not disrupt it.

A core mission of the GSEs is to provide liquidity and stability to the multifamily housing market to ensure a steady supply of affordable, quality rental housing for our citizens across the United States. That mission is most critical in the context of a downturn in the market, when other sources of capital retreat.

Freddie Mac’s securitization model has worked extremely well but has not been tested in a downturn. If the capital markets were to experience a significant downturn, history would tell us that Freddie Mac will have an exceptionally difficult, if not impossible, task of selling its B-Piece bonds to private investors. When the CMBS market collapsed in 2008/2009, there was no price that private capital would accept for B-Piece risk on commercial real-estate backed bonds. No price! As the graph below shows, after attracting \$225 billion in global capital in 2007, the CMBS market shrunk to nearly zero in 2009. During this period, spreads on the BBB- portion of CMBS issuances — essentially the same risk piece as Freddie Mac B-Pieces — gapped out to a high of 1800 basis points in 2008 before the CMBS market virtually shut down until 2011.



Source: Mortgage Bankers Association

If Freddie Mac were not able to sell the loans it aggregates on its balance sheet in the ordinary course of business, over a six-month period, it would accumulate over \$10 billion in loans, where Freddie Mac would be taking 100% of the credit risk. And as we have seen in other downturns, particularly during the Great Financial Crisis, as buyers pull out of the market, spreads widen dramatically, which would result in huge securitization losses for Freddie Mac.

WALKER & DUNLOP

Fannie Mae's DUS Program, on the other hand, does not require Fannie Mae to assume the aggregation risk, and has a tried-and-tested track record with regard to pricing and liquidity during the Great Financial Crisis. Fannie Mae was able to continue lending in the multifamily market throughout the crisis due to its DUS lenders retaining the risk on the loans they originated, and the capital markets continuing to buy the investment grade securities.

It is Walker & Dunlop's strong belief that FHFA should vigilantly avoid establishing new capital requirements based on theoretically modeled losses rather than the actual loss experience of the Fannie Mae DUS program. There is nothing, whatsoever, in the over thirty years of the Fannie Mae DUS Program's lending that would suggest more capital is needed in the system. And if FHFA decides to implement any capital changes, the new capital requirements should be neutral, and not advantage one GSE vis-a-vis the other. The current proposal places significant additional capital requirements on Fannie Mae, and would make Fannie Mae less competitive, reducing liquidity and dramatically increasing market risk. FHFA should strive to maintain the current market dynamic of competition, liquidity, and low-cost capital to consumers.

Respectfully submitted,

WALKER & DUNLOP, INC.



William M. Walker
Chairman and
Chief Executive Officer