NORTHMARQ CAPITAL

November 16, 2018

Submitted Electronically

The Honorable Melvin L. Watt
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

RE: Enterprise Capital Requirements [RIN: 2590-AA95]

Director Watt:

On behalf of NorthMarq Capital ("NorthMarq"), we are grateful for the opportunity to provide input on the proposed rule to implement a new regulatory capital framework for Fannie Mae and Freddie Mac (the Government Sponsored Enterprises, or "GSEs"). NorthMarq Capital, the largest privately-owned commercial real estate financial intermediary in the U.S., provides debt, equity and commercial loan servicing through its 36 offices across the U.S. The company provides financing through life companies, CMBS platforms and local, regional and national banks and has a long track record of multi-family loan origination through Freddie Mac Program Plus™, the Fannie Mae DUS™ program and FHA, resulting in more than $13 billion in annual production volume and a loan portfolio of more than $53 billion.

The proposed rule is intended to establish a capital framework for the GSEs so they can continue to achieve their mission of ensuring robust liquidity in the mortgage market and access to mortgage credit anywhere in the United States. The GSEs have been very successful in their mission in the multifamily markets through two different business models. Both models layoff risk to private entities to protect the GSEs and taxpayers. It is worth noting that the Fannie Mae Delegated Underwriting and Servicing ("DUS") model has proven successful over several decades and market cycles, while Freddie's securitization model has yet to be tested by a single down market cycle. However, the proposed rule appears to prefer the Freddie Mac model of securitization and penalize Fannie Mae's DUS model with approved DUS lenders maintaining a loss position for the life of every loan they fund with Fannie Mae. We believe the proposed rule overestimates the risk of the Fannie Mae DUS program by applying an excessive loss severity estimate compared to actual historical levels and underestimates the strength of the counterparties where the DUS lenders maintain significant restricted and discretionary reserves for their financial responsibilities under the program.

I. Historical Performance Compared to Loss Assumptions in Proposed Rule

The Fannie Mae DUS model has a 30-year track record of proven success. The risk retention model forges and maintains an alignment of interest between Fannie Mae and the DUS lenders for the life of the loan. NorthMarq maintains the first 5% of all loan losses, as well as 25% of the next 20% of losses and then 10%

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of any additional losses, up to a maximum level of 20% of the original loan amount. For the life of the loan, NorthMarq maintains this level of loss sharing, and we do this because of our confidence in our ability to underwrite and assess risk on the transactions that we put into our portfolio. Since our DUS license was issued in 2001, we have originated over $12 billion in DUS loans, and our actual loss level has only been 0.010%. We weathered the Great Financial Crisis with these extraordinary results, and it speaks volumes for the strength of the Fannie Mae DUS program. The proposed rule appears to apply unreasonably high loss assumptions without consideration of the actual strong historical performance of the Fannie Mae DUS program.

II. DUS Lenders' Financial Strength Mitigates Counterparty Risk

Fannie Mae does on-going assessments of each DUS Lender to ensure the acceptability of each lender's financial position in relation to Fannie's financial exposure to each entity. These assessments are robust and ensure that each DUS Lender maintains with the financial wherewithal to meet its obligations under the program. All DUS Lenders are required to maintain significant restricted reserves on every loan originated. These funds are not available to the lender and are held for Fannie Mae's benefit in the event of a default. However, in addition to these restricted reserves, DUS Lenders hold additional reserves to cover their potential liabilities in a loss sharing event. Each DUS Lender maintains millions of dollars in reserves for these potential liabilities, and the proposed rule does not appear to take into account these significant mitigants in the assessment of counterparty risk.

NorthMarq does believe that a risk-based capital framework for the GSEs is a prudent step for FHFA to pursue. However, the proposed rule unnecessarily penalizes Fannie Mae's proven DUS program in favor of Freddie Mac's securitization model. This proposed rule risks making Fannie Mae uncompetitive, and thusly, reducing the liquidity and support for the multifamily mortgage business to a single provider, Freddie Mac. The multifamily mortgage market benefits from both of the execution models of Fannie Mae and Freddie Mac, and both models should be supported to maintain liquidity through various market cycles, as proven historically. Creating a capital framework for Fannie Mae that utilizes loss levels that reflect the historical performance of the DUS program and factors in the value of the counterparty loss-sharing model is a prudent step to put Fannie Mae on a stable path into the future.

We look forward to working with the FHFA and engaging in discussions on this important issue. Please do not hesitate to contact me at (301) 718-6678 or JDonaldson@NorthMarq.com, if you have any questions.

Sincerely,

Jayson F. Donaldson
President
NorthMarq Capital Finance, L.L.C.