



August 28, 2020

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA95
Federal Housing Finance Agency, Eighth Floor
400 Seventh Street SW
Washington, DC 20219

To Whom It May Concern:

This public comment letter is being submitted by Harbor Group International, LLC in response to the Federal Housing Finance Agency's ("FHFA") proposed new regulatory capital framework ("Proposed Capital Rule") for the Federal National Mortgage Association (commonly known as Fannie Mae) and the Federal Home Loan Mortgage Corporation (commonly known as Freddie Mac).

Harbor Group International, LLC and its affiliate and predecessor entities (collectively "HGI") have engaged in business in the commercial real estate sector for over 35 years and currently have assets under management of approximately \$12.5 billion. At all times during its history, HGI has conducted business in the multifamily sector, either as an owner, property manager, or investor in multifamily properties owned and operated by unaffiliated third parties.

Today, HGI directly owns approximately 40,500 apartment units and provides property management services for other owners totaling approximately 3,000 units. HGI also maintains preferred equity or mezzanine loan investments in other sponsors' properties covering approximately 11,600 units.

Significantly, since 2015, HGI has invested in the first risk loss or "B pieces" issued by Freddie Mac in K series loan securitizations (each a "B piece"). To date, HGI has invested approximately \$2.7 billion in B pieces in 30 different loan securitizations.

In addition to these B piece investments, particularly since the Great Financial Crisis in 2008 and 2009, HGI has been a regular senior mortgage borrower from Freddie Mac to support HGI's investment activities and refinancings within its portfolio of owned assets. Since 2008, HGI's total borrowings with Freddie Mac total approximately \$4 billion. Given HGI's prominent role both as a B piece investor and multifamily borrower, the firm has extensive operational and investment experience with Freddie Mac, witnessing first hand Freddie Mac's support for the rental housing market in the United States.

By providing for investment in B pieces by firms such as HGI, Freddie Mac's K series loan securitization model reduces taxpayer risk by ensuring that the first losses on Freddie Mac multifamily mortgages are borne by sophisticated private investors. The regular, recurring nature of the securitization program also allows private investors to plan for a fairly predictable pipeline of investment opportunities and raise commensurate levels of capital, which in turn brings important and sustainable levels of liquidity to the U.S. rental housing market.

Further, sponsors such as HGI are able to match K series investment opportunities with diverse capital sources under varying market conditions, giving appropriate consideration to those capital sources' investment objectives and target risk/return profiles. An important component of that risk assessment is the extremely low historical default rate for Freddie Mac multifamily mortgages, which during the Great Financial Crisis performed far better than CMBS originated multifamily mortgages. As a result, HGI's commitment to its B piece investment platform has remained steadfast since 2015 through various market cycles and at different pricing or spread levels for B pieces.

By lowering taxpayer risk and ensuring sustainable levels of market liquidity in the multifamily sector, Freddie Mac's securitization model serves important and obvious public policy interests in furtherance of U.S. rental housing. FHFA's Proposed Capital Rule, however, undercuts these public policy interests by disincentivizing Freddie Mac from issuing B pieces. By directly reducing the benefits of credit risk transfer, and imposing a 4% capital requirement regardless of the level of risk transfer to private investors, the Proposed Capital Rule inappropriately incentivizes Freddie Mac to retain a first loss position on multifamily mortgages for profitability purposes, which would increase taxpayer risk and jeopardize the significant liquidity brought to the multifamily mortgage market by private capital.

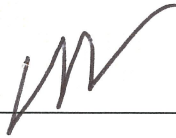
The COVID-19 pandemic and associated economic dislocation have highlighted the strength of Freddie Mac's current securitization model as a source of critical liquidity. As an investor in commercial real estate sectors other than multifamily, HGI has observed the constraints under which commercial banks and other sources of multifamily financing are operating (in part as a result of legacy loan issues in sectors such as hospitality and retail). In contrast, both Freddie Mac and Fannie Mae are generating the volumes of multifamily mortgages that are necessary to support U.S. rental housing. Given Freddie Mac's securitization model, this lending activity has occurred with meaningful support from private capital and an associated reduction in risk of loss to U.S. taxpayers.

As support for the Proposed Rule, FHFA has emphasized its "statutory mission to provide stability and ongoing assistance to the secondary mortgage market across the economic cycle, in particular during periods of financial stress." Freddie Mac's current securitization model, by ensuring ample market liquidity during the COVID-19 crisis, has evidenced an important way in which private capital can support FHFA's mission

during periods of market dislocation. However, the Proposed Rule undercuts this very mission by disincentivizing Freddie Mac from transferring risk to private investors, which in turn will expose U.S. taxpayers to greater risk and hamper liquidity in the rental housing market at times when that liquidity is most needed.

For the foregoing reasons, HGI urges FHFA to refrain from adopting the Proposed Capital Rule as it relates to capital requirements for Freddie Mac's and Fannie Mae's multifamily mortgage businesses.

Respectfully, the Executive Committee of
HARBOR GROUP INTERNATIONAL, LLC



T. Richard Litton, Jr., President