BRIDGE
INVESTMENT
GROUP

November 4, 2021

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

Re: Enterprise Regulatory Capital Framework Proposed Rules

Dear Mr. Pollard,

Bridge Investment Group (together with its affiliates, "Bridge") is pleased to provide comments on the Federal Housing Finance Authority's ("FHFA") proposed Enterprise Regulatory Capital Framework (the "Proposed Rule").

Bridge is a leading, vertically integrated real estate investment manager, diversified across specialized asset classes, with approximately $28.7 billion of assets under management as of June 30, 2021. Bridge combines its nationwide operating platform with dedicated teams of investment professionals focused on select U.S. real estate verticals: multifamily, affordable housing, seniors housing, office, development, logistics net lease, logistics properties, debt strategies and agency mortgage-backed securities. Bridge is one of the largest workforce/affordable housing operators and managers, and is one of the top ten owners of seniors housing in the country with roughly 12,500 residents. Bridge has the largest diversified Opportunity Zone platforms with over $2.6 billion of capital committed to projects around the United States.

We appreciate the opportunity to respond to this Proposal and will focus our comments on the Proposed Rule and the potential impact on Freddie Mac, and on the workforce/affordable housing market within the United States.

Impact to Freddie Mac and Fannie Mae (the "Agencies")

Bridge has been the largest buyer of Freddie Mac K-Series B-Pieces over the last four years. Since 2014, Bridge has purchased 62 B-pieces from Freddie Mac backed by a $58.6 billion portfolio of 2,268 loans. As part of our due diligence, we visit every underlying property with a Bridge employee and re-underwrite every loan. Given our extensive multifamily portfolio and expertise, we are well positioned to assume this "first loss" risk of the K-Series securitizations. In the event a loan defaults, we are prepared to foreclose and potentially own and operate the asset.

In researching the Proposed Rule, we feel there are some key issues that should be taken into account, namely:

1. The increase of the capital requirement for multifamily is increasing from 5.50% to 6.49% despite very strong historical performance of multifamily loans. According to Freddie Mac's Multifamily Loan Performance Database, credit losses on their multifamily loans originated since 1994 are approximately 4 bps. Furthermore, the capital requirement for multifamily relative to single family does not make sense based on historical default rates and losses which show single family has a much higher risk profile. According to data from Fannie Mae as of June 2020, single family delinquency rates are 5.5% versus multifamily delinquency rates of 1.1%. Looking at losses incurred during the financial crisis, single family loans exhibited loss rates many multiples of multifamily loss rates.
2. The capital pricing grid is too insensitive to leverage which will force the Agencies to do higher leverage lending as they will be uncompetitive on lower leverage loans.
3. The credit risk transfer resulting from securitization and the sale of a "first loss" B-piece will not result in adequate capital relief for Freddie Mac so they will be forced to retain loans on balance sheet and abandon their highly successful K-Series program that has transferred billions of dollars of credit risk off of their balance sheet and into the private sector to groups like Bridge that are comfortable with assuming this risk.
4. It has been estimated that the increase in capital requirement for multifamily will increase borrowing cost to owners by 20-30 basis points. It is our concern that these costs will ultimately get borne by tenants from increased rents and a diminution of community services. We believe the ultimate goal of FHFA should be to try to lower the cost of housing, not further drive up the already increasing cost.

The combination of Freddie Mac making higher leverage loans and discontinuing the K-Series program due to the Proposed Rule will result in Freddie Mac holding significantly more risk going forward. This creates the possibility that Freddie Mac could be exposed to losses in the future that could have been avoidable if their capital requirements were properly set. Requiring Freddie Mac to hold excessive capital against risk will not make their balance sheet safer but will achieve the opposite result—i.e., they will be motivated to hold more risk.

Impact on the U.S. Workforce/Affordable Housing Market

The United States is facing an affordable housing crisis, with an estimated 10.9 million renter and homeowner households paying more than 50% of their annual incomes for housing. During this time of great demand, supply of workforce/affordable housing is tightening, and demand ever increasing.

Bridge, through our Workforce and Affordable Housing strategies, has developed one of the few private capital solutions to the workforce and affordable housing crisis facing America. We have raised and deployed over $1.2 billion of equity over the last several years, specifically focused on adding to, or preserving and rehabilitating the stock of workforce housing in America, owning more than 10,000 workforce/affordable housing units, with an additional 25,000 units of market rate class B multifamily housing.

In addition, we aim to have a positive social impact, implementing extensive community and social programs that improve the quality of life for our residents, while helping preserve vital housing options for the nation's workforce. The social programs being deployed at many of our communities include health and wellness, second language training, afterschool programs for kids, meals, technology advancement, etc. and are funded entirely by Bridge and its investors, and are provided at no cost to the community residents.

We are deeply concerned that the Proposed Rule will have unintended consequences and further add to the affordable housing crisis in America, by further increasing the cost of ownership to the landlords. Based on the foregoing, Bridge strongly recommends that FHFA does not implement the proposed increase to the capital requirement for multifamily.

We greatly appreciate this opportunity to comment on the proposed Enterprise Regulatory Capital Framework, and look forward to working constructively with the FHFA on this important matter.

Sincerely,

Robert R Morse

Robert Morse
Executive Chairman, Bridge Investment Group

Jonathan Slager
Chief Executive Officer, Bridge Investment Group
Chief Investment Officer, Bridge Multifamily

Danuel R Stanger

Danuel Stanger
Chief Investment Officer-Emeritus, Bridge Workforce & Affordable Housing

James Chung
Chief Investment Officer
Bridge Debt Strategies