Housing Finance
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Mr. Clinton Jones
General Counsel
Federal Housing Finance Agency
400 Seventh Street SW
Washington, DC 20219
Submitted electronically via www.fhfa.gov/open-for-comment-or-input

2023-2024 Multifamily Enterprise Housing Goals RIN 2590-AB21

Dear Mr. Jones:

The National Association of Home Builders of the United States (NAHB) appreciates the opportunity to comment on FHA's 2023-2024 Multifamily Enterprise Housing Goals. NAHB is a Washington, D.C.-based trade association that represents more than 140,000 members. NAHB members design, construct, and supply single-family homes, build and manage multifamily projects, and remodel existing homes. In the single-family market, NAHB's members construct custom housing, and build homes for first-time homebuyers, as well as for low-and-moderate-income homebuyers. NAHB's multifamily members build and manage market-rate, affordable and federally-assisted multifamily housing.

The ability of the home building industry to meet the demand for housing, including addressing affordable housing needs, and contributing to the nation's economic growth is dependent on an efficiently operating housing finance system that offers liquidity to the housing market in all geographic areas and at reasonable interest rates through all economic conditions.

BACKGROUND

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (the Safety and Soundness Act) requires FHFA to establish annual single-family and multifamily housing goals for mortgages purchased by Fannie Mae and Freddie Mac (the Enterprises). Achieving the annual housing goals is one measure FHFA uses to determine the extent to which the Enterprises are meeting their public purposes. For example, the Enterprises have an obligation to facilitate the financing of affordable housing for low- and moderate-income families while maintaining a strong financial condition and a reasonable economic return.

Since 2010, FHFA has established annual housing goals for Enterprise purchases of both single-family and multifamily mortgages by rulemaking, consistent with the requirements of the Safety and Soundness Act. FHFA's most recent rule, issued in December 2021, amended the housing goals regulation to establish benchmark levels for the single-family housing goals for 2022 through 2024 and benchmark levels for the multifamily housing goals for 2022 only. FHFA established the multifamily housing goals for a single year in response to the uncertainty in housing markets associated with the COVID-19 pandemic and the potential for unforeseen changes to multifamily market conditions in 2023 and 2024. FHFA also considered comment letters submitted in response to the 2021 proposed rule that urged the Agency to establish one- or two-year multifamily goal benchmark levels, in part due to those same factors.

Under FHFA's existing housing goals regulation, the multifamily housing goals for the Enterprises include benchmark levels through the end of 2022 based on the total number of affordable units in multifamily properties financed by mortgage loans purchased by the Enterprise each year. FHFA's proposed rule would amend the regulation to establish benchmark levels for the multifamily housing goals for 2023 and 2024 based on a new methodology – the percentage of affordable units in multifamily properties financed by mortgages purchased by the Enterprise each year.

Under the proposed rule, the Enterprises would continue to report on the number of multifamily units acquired each year, including data on units that are affordable to low-income households, very low-income households, and low-income households in small multifamily properties. In order to meet each of the multifamily goals, each Enterprise would be required to ensure that the percentage of affordable units meets or exceeds the benchmark level. By changing to a percentage share of the total multifamily units in properties securing goal-eligible mortgages acquired by each Enterprise in a year, FHFA asserts that the proposed multifamily housing goals would adjust automatically to the volume of the Enterprise's multifamily business each year, while ensuring that each Enterprise's focus remains on affordable segments.

FHFA invited comments on all aspects of the proposed rule, including the proposed multifamily housing goals benchmark levels and the proposed new multifamily housing goals methodology.

PROPOSED MULTIFAMILY GOALS AND BENCHMARKS 2023-2024

FHFA's proposed benchmark levels for the Enterprise housing goals are noted below.

Goal	Criteria	Proposed benchmark for 2023 and 2024
Low-Income Goal	Percent of all goal-eligible units in multifamily properties financed by mortgages purchased by the Enterprises in that year that are affordable to low-income families, defined as families with incomes less than or equal to 80 percent of AMI	61%
Very Low-Income Subgoal	Percent of all goal-eligible units in multifamily properties financed by mortgages purchased by the Enterprises in that year that are affordable to very low-income families, defined as families with incomes less than or equal to 50 percent of AMI	12%
Small Multifamily Low-Income Subgoal	Percent of all goal-eligible units in multifamily properties of all sizes financed by mortgages purchased by the Enterprises that are units in small multifamily properties affordable to low-income families, defined as families with incomes less than or equal to 80 percent of AMI	2%

COMMENTS

The Enterprises' multifamily family housing goals and benchmarks should be challenging, but reasonably so. NAHB believes it is imperative that FHFA's regulation of the Enterprises upholds safety and soundness of the entities, affirms the affordable housing mission of the Enterprises, and preserves the important countercyclical role of Fannie Mae and Freddie Mac in providing access to mortgage credit.

Proposed Percentage-Based Methodology

FHFA proposed a new percentage-based measure for the benchmarks instead of setting the benchmark as an absolute minimum number of units[1]. FHFA's rationale for the methodology change is:

- The proposed methodology change is consistent with the single-family methodology the Enterprises already follow for the single-family housing goals;
- The current methodology requires FHFA to forecast multifamily market conditions and Enterprise purchase volumes three or four years into the future without a comprehensive dataset of multifamily loan origination volume;
- The proposed percentage-based benchmark levels mean that the absolute number of affordable units needed to meet each of the housing goals each year would adjust automatically based on the Enterprises' multifamily loan purchase volume and reflect actual multifamily market conditions;
  - The number of goal-qualifying units needed would scale up or down in proportion with Enterprises' loan acquisitions;
- The change should have minimal impact on Enterprise operations, as it would not change the existing regulatory counting rules, reporting requirements or definitions;
- FHFA feels the current methodology lacks incentives for the Enterprises to surpass the minimum number of units sets in the benchmarks; and
- Stakeholders commented that FHFA should develop an alternative multifamily benchmark structure.

NAHB members expressed varying degrees of openness to the methodology change. More important to our multifamily members than the methodology per se is the need to preserve the Enterprises' countercyclical role in providing access to mortgage credit. In a recessionary environment when financing options for affordable apartment communities become more limited because various lenders retreat from the market, liquidity from the Enterprises is crucial to produce and preserve affordable apartments for low-and very-low income families. NAHB is concerned that setting the benchmarks as a percentage of loan volume would lead to an automatic decline in the number of affordable apartments supported by Enterprise financing during a recession when that financing is needed most. Our members also urged that FHFA adopt the methodology that will consistently result in the highest absolute number of affordable units in the mortgages purchased by Fannie Mae and Freddie Mac each year.

NAHB is forecasting that the multifamily market will contract in 2023 and 2024, meaning that liquidity from the Enterprises will be essential to constructing and preserving affordable rental housing for low-

[1] FHFA defines the percentage as the number of dwelling units that count toward the achievement of a particular MF goal or subgoal in properties financed by mortgages purchased by an Enterprise in a particular year divided by the total number of units in properties financed by mortgages purchased by a GSE in a particular year.

income and very-low-income families across the nation. Therefore, before FHFA switches to percentage-based benchmarks for the multifamily housing goal benchmarks, the Agency must convincingly demonstrate this methodology will preserve the important counter-cyclical role the Enterprises play during economic downturns **and** that the percentage-based methodology results in a higher number of affordable units than the numerical methodology under all economic circumstances.

Benchmarks for the 2023 and 2024 Multifamily Affordable Housing Goals

FHFA provided the Enterprises' historical average annual performance for each of the goals and subgoals as percentages for each of the years 2017-2021. FHFA proposed a benchmark of 61 percent as Low-Income Goal for both Enterprises for each of 2023 and 2024. The historic performance average for the pre-pandemic years of 2017-2019 would have been 65 percent for Fannie and 67.3 percent for Freddie. During the pandemic years of 2020 and 2021, Fannie's low-income percentage totals were 69.3 percent and 69 percent, respectively, while Freddie's were 70.9 percent and 68.7 percent, respectively. FHFA proposed a 12 percent Very Low-Income Subgoal for each Enterprise for each of years 2023 and 2024. The average performance of the Enterprises under this subgoal for the pre-pandemic years of 2017-2019 would have been 13.1 percent for Fannie and 15.6 percent for Freddie. During the pandemic years of 2020 and 2021, Fannie's very-low income percentage totals were 15 percent for both years, while Freddie's were 16 percent and 16.2 percent, respectively. For the Low-Income Small Multifamily (5 – 50 units) Subgoal, FHFA proposed a 2 percent benchmark. FHFA noted that the small low-income multifamily housing market has been challenging to size and monitor, private sector financing has returned to this market segment, and the need for a significant presence for the Enterprises in this market may no longer be necessary. Also, each Enterprise performs differently in this market due to different business models and credit risk. FHFA acknowledged this benchmark reflects a reduced level of GSE participation in this market.

In 2022, FHFA substantially increased the absolute numeric benchmarks for the multifamily goals and subgoals. The 2022 Low-Income Goal for both Enterprises is 415,000 units. The 2022 Very Low-Income Subgoal for both Enterprises is 88,000 units. Finally, the 2022 numeric benchmark for the Low-Income Small Multifamily Subgoal for Fannie Mae is 17,000 units and 23,000 units for Freddie Mac. In each instance, FHFA notes the difficulty of comparing the proposed percentage-based benchmarks for 2023 and 2024 with the numeric benchmark levels for 2022 "…because the percentage depends on the volume of Enterprise business as well as the composition of the business." FHFA has not yet released the MF volume caps for 2023. Despite the difficulty of the comparison, FHFA asserts, "the number of goal-qualifying units in properties backing mortgages purchased by the Enterprises varies more widely from year-to-year than the percentage of goal-qualifying units.…"

NAHB is concerned that FHFA does not even attempt to estimate a comparison between the 2022 numeric goals and the percentage-based benchmarks for 2023 and 2024. This raises a serious question about the impact the methodology change may have on the Enterprise Multifamily Affordable Housing Goals during the current housing recession. NAHB also questions whether now is the right time for the Enterprises to retreat from the small multifamily low-income market because history shows that many lenders retreat from the less lucrative business lines during economic downturns. All things considered, the proposed benchmarks may be too conservative, and NAHB urges FHFA set them closer to the higher historical norms. The Enterprises should continue to play a leading role in the affordable multifamily housing markets, as they have consistently demonstrated over the years that they can do.

Multifamily Volume Caps

Although the multifamily volume caps are outside the scope of this rulemaking, the issues, as FHFA notes, are closely related. NAHB is pleased that the PSPA limit for the multifamily volume caps of $80 billion per Enterprise remains suspended. Builders experienced astronomical cost increases due to continued supply chain disruptions, labor shortages, and other issues. If the Enterprises are to perform effectively in meeting their affordable housing mission, especially during the current housing recession when their countercyclical role is so important, FHFA must provide them with sufficiently generous caps to supply the necessary mortgage credit. Alternatively, FHFA should consider suspending the multifamily volume caps altogether.

CONCLUSION

Thank you again for the opportunity to comment on these proposed changes. Please contact Michelle Kitchen at mkitchen@nahb.org for additional information or to answer any questions you may have regarding these comments.

Sincerely,

Jessica R. Lynch