MORTGAGE BANKERS ASSOCIATION WHITE PAPER

ENSURING LIQUIDITY AND STABILITY: THE FUTURE OF MULTIFAMILY HOUSING FINANCE AND THE GOVERNMENT-SPONSORED ENTERPRISES
Overview

Multifamily rental housing is a critical part of the U.S. housing market and vital to our communities. More than 15 million (one in seven) households call multifamily rental housing — those with five or more units — their home. This broad market includes workforce rental housing, seniors housing, student housing, rental properties that primarily serve low- and moderate-income families, and market rate rental housing. And importantly, multifamily rental housing provides affordable housing, with 93 percent of multifamily rental apartments having rents affordable to households earning area median incomes or less.

While policy discussions are frequently driven by issues facing the single-family mortgage market, ensuring a vibrant and stable multifamily finance system is equally important to the public dialogue. A thoughtful and deliberative approach to this vital source of housing is necessary as policymakers continue to examine the future government role in this market, as well as the future of the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac.

We appreciate the Federal Housing Finance Agency’s (FHFA) recognition in its February 2012 strategic plan of several unique characteristics of the GSEs’ multifamily business lines.1 The Obama Administration’s 2011 white paper on reforming the housing finance system, too, called for a “renewed commitment to affordable rental housing.”2 Policymakers in Congress as well have focused increasing attention on the importance and distinct characteristics of the multifamily housing market.

The conversation on the future state of the GSEs must fundamentally address the unique landscape of the multifamily finance market. The importance of the multifamily finance market to our Nation’s housing system, the substantial private capital already deployed in multifamily debt from a range of capital sources (including banks, life insurance companies, investors in CMBS, and through GSE risk sharing structures/arrangements), the overall strong performance of multifamily mortgages during the recent credit crisis (the serious-delinquency rate of each GSE and of life insurance companies

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was under three-tenths of one percent as of the second quarter of 2012), and the counter-cyclical role of the government guarantee (through the GSEs and the Federal Housing Administration) during the recent downturn — all describe the state of the multifamily finance market.

The current state of the GSEs in government conservatorship is both unique and unsustainable in the long-term. While the GSEs historically benefited from an “implicit” federal government guarantee, since entering into conservatorship in 2008, they receive explicit government support through a funding agreement between the U.S. Treasury and FHFA as the GSEs’ conservator. We do not believe that it is in the long-term interests of the housing finance system or American taxpayers for the status quo to continue indefinitely without policy resolution. At the same time, the policy development process should guard against causing harm to the multifamily market or disadvantaging multifamily rental housing relative to owner-occupied housing, as both are integral to our communities and a vibrant U.S. economy.

To assist policymakers in these deliberations, the Mortgage Bankers Association convened a Task Force in 2012 comprised of industry experts from its broad commercial/multifamily finance membership to focus on the future of the GSEs’ role in the multifamily market. Building on the groundbreaking 2009 Report by MBA’s Council on Ensuring Mortgage Liquidity, the MBA Task Force has developed recommendations on the future of multifamily housing finance and the role of the GSEs.

The core recommendations of the MBA GSE Multifamily Task Force are as follows:

First, our nation’s housing policies should reflect the importance of multifamily rental housing, the range of capital sources that support this market, and the need for liquidity and stability in all market cycles. Fifteen million households rent homes in multifamily properties, and the number is expected to grow. A broad range of capital sources support the multifamily finance market, including private capital sources. The roles of the GSEs and FHA in financing multifamily mortgages have been substantial, but other market participants — including life insurance companies, banks and other lenders — have maintained a strong presence as well. With respect to the GSEs’ multifamily activities, credit performance has been strong during the recent market downturn and, with government support, the GSEs have served a countercyclical role that provided liquidity when private capital sources largely exited the market.

Second, private capital should be the primary source of financing for multifamily housing with a limited, government-backed insurance program ensuring that the market has access to liquidity in all cycles. The FDIC-like risk insurance program would provide support at the mortgage-backed security, rather than at the entity, level. The role of private capital is vital in

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two respects: The deployment of private capital through market participants that have historically supported multifamily finance, such as portfolio lenders and CMBS investors, and the investment of private capital in entities that would be permitted to issue government-backed securities.

We believe that a focused role for the federal government through a government-backed risk insurance fund, with a federal catastrophic backstop, would ensure continuous liquidity and stability in all market cycles. Eligible mortgage-backed securities would have a Ginnie Mae-like wrap. The insurance fund, paid for through risk-based premiums, could be modeled after FDIC programs and would support such mortgage-backed securities, not at the level of the issuer, as is the case today. This role would be similar to that of the U.S. government in a number of sectors and markets — federal deposit insurance in the banking system, terrorism risk insurance that backstops property and casualty risk, and federal pension insurance for private defined benefit plans are a few examples.

Third, entities eligible to issue government-backed securities should be mono-line, funded by private capital, focused on securitization, serve the workforce rental market, and regulated in a manner that protects taxpayers and ensures robust competition among capital sources. A strong government regulator with market expertise would provide oversight regarding the issuing entities, including their safety and soundness, risk-based capital requirements, and products offered. The entities, which would not be limited to potential successor entities to the GSEs, also would assume a significant risk position by providing an entity-level buffer, placing private capital at risk ahead of any government backstop. Risk-based premiums would be deposited into a federal insurance fund, to be drawn upon only if and when the entity becomes insolvent. The pricing of the premiums would be structured in a manner that allows robust competition. Importantly, the issuing entities would need to attract private capital and maintain financial viability. We believe, however, that they should be mono-line institutions limited to secondary mortgage market activities and the housing finance sector, with a focus on workforce and affordable rental housing.

Fourth, stewardship of existing GSE assets and resources on behalf of taxpayers should be a core consideration for any policymaker action — during the current period of conservatorship, any transition period, and in the future state of multifamily finance. The talent and expertise at the GSEs, their existing books of business, their market executions and any profits generated by their multifamily businesses are valuable to U.S. taxpayers and should be deployed in a manner that support the future state of multifamily housing finance. Preserving and dedicating such resources would support an orderly transition — over a five to ten year period — to a new mortgage finance system and optimize potential returns to taxpayers.
Finally, the long-term liquidity and stability of the multifamily finance system in all market cycles, rather than whether the existing multifamily business lines could survive as ongoing businesses, should be the core driver of whether the GSEs’ multifamily businesses should operate on a standalone basis. We strongly believe that whether the GSEs’ multifamily businesses should operate on a standalone basis should not be determined in a vacuum nor based solely on the financial viability of multifamily standalone enterprises without government guarantees. The primary drivers of this determination should be whether a standalone scenario would reflect the importance of multifamily rental housing and the need for liquidity and stability in all market cycles. Fundamentally, the do no harm principle should govern, particularly in light of the stability and successes of the multifamily market overall. Taxpayers and the system should also be protected, and the government must exercise stewardship, including with regard to the preservation of existing resources valuable to the U.S. government.
1. Our nation’s housing policies should reflect the importance of multifamily rental housing, the range of capital sources that support this market, and the need for liquidity and stability in all market cycles.

The multifamily rental housing market is a critical component of our housing system — in size, reach and the households that it serves. The role of the GSEs in this market has been substantial, as has been the role of fully private capital sources. Importantly, the guarantee provided by the federal government has enabled the GSEs to serve a counter-cyclical role.

The multifamily rental housing market is a critical component of our housing system.

The multifamily housing sector (typically defined as properties with 5 or more units) is diverse and includes a range of different housing types, including conventional market rate rental housing (where rent levels are market-driven), subsidized housing (where public subsidies are provided in return for affordability restrictions), and rental housing designed for a particular demographic, such as seniors housing and student housing.

About 15 million U.S. households rent homes in multifamily properties. Housing policy solutions should strengthen, support and ensure liquidity for this broad market that houses more than one in seven households.

Multifamily rental housing is of particular importance for low- and middle-income families, which is often referred to as workforce housing. Ninety-three percent of multifamily rental units are affordable to households with incomes at or below their area median income.

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4 2009 American Housing Survey. The term “multifamily” generally refers to properties with 5 or more units. The term may have different meanings, however, when applied to different contexts.

5 2009 American Housing Survey and the Joint Center for Housing Studies, Harvard University.
The role of rental housing has been growing. The share of households renting their homes has risen to 35 percent from a low of 31 percent in 2004. And since the end of 2006, the number of renter households has increased by five million, while the number of owner-occupied households has declined by 1.5 million.

Changes in the Number of Owner- and Renter-occupied Households, and Homeownership Rate

Thousands of households

<table>
<thead>
<tr>
<th>Year</th>
<th>Change in Owner Households</th>
<th>Change in Renter Households</th>
<th>Homeownership Rate (%)</th>
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</thead>
<tbody>
<tr>
<td>2000</td>
<td>100</td>
<td>-100</td>
<td>68</td>
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<tr>
<td>2019</td>
<td>2000</td>
<td>2000</td>
<td>69</td>
</tr>
</tbody>
</table>

Source: Mortgage Bankers Association and Census Bureau

The number of renter households is expected to continue to increase substantially over the next decade. Harvard's Joint Center for Housing Studies "estimates that the number of renter households could increase by 360,000–470,000 annually between 2010 and 2020, in line with growth over the past decade." It is vital that the supply of rental housing keep up with demand.

The recent surge in demand for rental housing has tightened the apartment market considerably. Vacancy rates for apartments have fallen from eight percent at the end of 2009 to just 4.7 percent in the second quarter of 2012. Apartment rents have increased three percent between the second quarter of 2011 and the second quarter of 2012. New construction of multifamily units has responded, rising almost 400 percent from the lows reached in 2009. Even so, the September 2012 seasonally adjusted annual rate of 260,000 units started remains below the 300,000 unit level seen through most of the 1990s and early 2000s.

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6 Joint Center for Housing Studies, Harvard University, State of the Nation's Housing 2011.
Where demand exceeds supply, rent levels can increase and rental housing becomes less affordable. Although the supply-demand dynamic in the multifamily housing market is complex and a result of numerous factors, liquid and stable sources of financing — including permanent, long-term, “take-out” financing — play a crucial role in ensuring that the supply of rental housing keeps pace with demand.

The role of the GSEs in the multifamily market has been substantial, but private capital sources have maintained a strong presence in this market as well.

The finance market that supports multifamily rental housing is large and diverse. The total amount of multifamily mortgage debt outstanding exceeds $800 billion. Long-term sources of capital include a range of market participants. At the end of the first quarter 2012:

- Fannie Mae and Freddie Mac held or guaranteed $290 billion of multifamily mortgages, 35 percent of the total;
- FHA/Ginnie Mae held or guaranteed $65 billion, 8 percent of the total;
- Banks and thrifts held $221 billion, 27 percent of the total;\(^7\)
- Commercial mortgage-backed securities (CMBS) held $88 billion (11 percent);
- State governments held $70 billion (8 percent); and
- Life insurance companies held $50 billion (6 percent).

\(^7\) MBA’s Quarterly Analysis of Commercial and Multifamily Mortgage Debt Outstanding.
\(^8\) Ibid.
The figure below shows the capital sources and their respective share of the multifamily mortgage debt outstanding.

**Multifamily Mortgage Debt Outstanding ($ millions)**

![Graph showing capital sources and their share of multifamily mortgage debt outstanding]

**Source:** Mortgage Bankers Association, Quarterly Analysis of Commercial/Multifamily Mortgage Debt Outstanding

**FHA has played an important counter-cyclical role in multifamily finance, but its capacity is limited.**

The Federal Housing Administration (FHA) has been a core part of the housing finance market since the early twentieth century. FHA is an essential source of the long-term, fixed-rate debt needed to build and refinance affordable rental units for working families, seniors, and underserved populations. FHA provides an explicit federal government guarantee on multifamily loans through a range of programs established by Congress. The guarantee is paid through a mortgage insurance premium (MIP) set by the U.S. Department of Housing and Urban Development (HUD) and paid by the borrower. FHA's loan programs are each designed to address a different loan type or segment of the market.9

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9 Some of the major FHA multifamily programs are: (1) new construction/substantial rehabilitation (NCSR); (2) section 223(f) for the purchase or refinancing of existing multifamily properties; and (3) section 223(a)(7) for the refinancing of loans that already have an FHA-insured mortgage. FHA and its lender partners also provide financing programs to support health-care and assisted-living facilities.
FHA has played a strong, counter-cyclical role in the multifamily market. As a result of significant market demand and volumes during the credit crisis, however, FHA's resources have been strained. Capacity limitations became clear as the backlog in the pipeline of applications created strain to the FHA system. Delivery times at the height of the credit crisis routinely took as long as 6-to-8 months for refinancing commitments and sometimes longer than 12 months for construction loans. FHA has initiated strong programmatic steps to improve their systems, but process limitations, as well as its status as a government agency subject to the federal appropriations process, present inherent limitations in FHA's capacity to meet the needs of the broad multifamily market.

The performance of the GSEs' multifamily mortgages has been strong during the recent market downturn.

Overall, the credit performance of the multifamily market has been relatively strong across multiple sources of financing, with the major exception being the CMBS market, as discussed below. The GSEs' multifamily mortgages have performed well during this downturn, far better than have their single-family mortgages. At the end of June 2012, the serious-delinquency rate for single-family mortgages at Fannie Mae was 3.53 percent, while the serious-delinquency rate for multifamily mortgages was just 0.29 percent. At Freddie Mac, the single-family serious-delinquency rate was 3.45 percent while the multifamily serious-delinquency rate was 0.27 percent.

The delinquency rates for Fannie Mae, Freddie Mac and life companies as a whole all remained remarkably low throughout the credit crunch and recession. The GSEs' multifamily mortgages have had a similar delinquency experience to life insurance companies' holdings of commercial and multifamily mortgages. As noted above, the 60-plus-day delinquency rates for Fannie Mae and

**Source:** Mortgage Bankers Association, HUD
Freddie Mac multifamily loans were under three-tenths of a percent. The 60-plus day delinquency rate for life insurance company commercial and multifamily mortgages was 0.15 percent, and for only apartment loans was 0.11 percent.

**Fannie Mae and Freddie Mac (60+ Day Delinquency)**

Source: Mortgage Bankers Association, Fannie Mae, Freddie Mac

**Life Companies (60+ Day Delinquency Including in Process of Foreclosure)**

Source: Mortgage Bankers Association, ACLI

At banks and thrifts, 9.40 percent of single-family mortgages was 90-plus days delinquent or in non-accrual at the end of the second quarter of 2012, compared with 2.03 percent of multifamily mortgages.
The most directly comparable delinquency rate for multifamily loans in CMBS (60-plus day delinquencies excluding loans in foreclosure or REO), as of the second quarter of 2012, was 3.11 percent. For multifamily loans in CMBS, the 60-plus day delinquency rate including loans in foreclosure or REO was 10.76 percent.
The GSEs, with government backing, have served a countercyclical role.

The role that the GSEs played during the credit and financial crisis — with a backstop provided by the federal government and express statements of support — is evident in the multifamily mortgage market.

The figure below illustrates how the GSEs’ ties to the federal government attracted investors to their debt and shored them up as sources for new loan originations as other sources pulled back during the credit crisis. In 2009, for example, private capital largely exited the multifamily finance market (as was the case in other sectors), but the GSEs, with their government backing, continued to provide liquidity during this period of unprecedented market disruption. During this period, CMBS effectively disappeared as a source of long-term debt in the multifamily market. As the market has stabilized and other lending sources have picked back up, the GSEs’ share has declined, even as their volumes have grown.

**Originations for Fannie Mae and Freddie Mac and Total Institutional Multifamily Lending ($ Millions)**

![Graph showing multifamily lending trends]

<table>
<thead>
<tr>
<th>Year</th>
<th>Institutional Multifamily Lending</th>
<th>Freddie Mac Flow</th>
<th>Fannie Mae Flow</th>
<th>Fannie/Freddie Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$80,000</td>
<td>$10,000</td>
<td>$20,000</td>
<td>27%</td>
</tr>
<tr>
<td>2006</td>
<td>$80,000</td>
<td>$12,000</td>
<td>$22,000</td>
<td>27%</td>
</tr>
<tr>
<td>2007</td>
<td>$90,000</td>
<td>$12,000</td>
<td>$30,000</td>
<td>29%</td>
</tr>
<tr>
<td>2008</td>
<td>$80,000</td>
<td>$15,000</td>
<td>$32,000</td>
<td>62%</td>
</tr>
<tr>
<td>2009</td>
<td>$100,000</td>
<td>$15,000</td>
<td>$40,000</td>
<td>85%</td>
</tr>
<tr>
<td>2010</td>
<td>$80,000</td>
<td>$13,000</td>
<td>$30,000</td>
<td>63%</td>
</tr>
<tr>
<td>2011</td>
<td>$90,000</td>
<td>$15,000</td>
<td>$35,000</td>
<td>57%</td>
</tr>
</tbody>
</table>

“Institutional” means lenders with dedicated multifamily lending programs and generally excludes smaller and medium-sized banks.

Source: Mortgage Bankers Association, Annual Origination Summation, and Fannie Mae and Freddie Mac Press Releases

In 2011, even with the return of other sources of financing, Fannie Mae and Freddie Mac continued to represent more than half of all multifamily origination volume. A sudden or dramatic change in the role of the GSEs in multifamily finance could lead to a significant disruption in multifamily mortgage availability.
2. Private capital should be the primary source of financing for multifamily housing with a limited, government-backed insurance program ensuring that the market has access to liquidity in all cycles. The FDIC-like risk insurance program would provide support at the mortgage-backed security, rather than at the entity, level.

_Private capital should serve as the primary source of financing._

Private capital already bears meaningful credit risk in the current market — through life insurance companies, bank portfolio lending, investors in CMBS, and the primary multifamily executions of both GSEs that incorporate loss sharing. We believe, however, that the multifamily housing system should be structured to attract greater private capital to this market. The system should attract private capital from a broad range of sources that fosters competition among various sources of financing. Private capital should take many different forms, including that provided by banks and other depository institutions, life insurance companies, and the securitization markets (CMBS). In addition, private capital should fund the capital structure of potential new and/or successor entities to the GSEs. Policy proposals should not inhibit the flow of private capital into the multifamily finance market nor stifle robust competition among the range of capital sources.

Notably, from 2005 to 2007, when the CMBS market was active, Fannie Mae and Freddie Mac together accounted for just over a quarter of the new origination financing of multifamily mortgages. A future state in which there is primary reliance on private capital is both feasible and foreseeable.

_A government role would ensure liquidity and stability in all market cycles._

The robust presence of private capital does not, however, obviate the importance of a well-defined government role. To ensure liquidity and stability in all market cycles, we believe that an appropriate government role — in the form of an FDIC-type risk insurance fund and the federal government as a catastrophic insurer on securities in the secondary mortgage market — is warranted. The security-level guarantee should be similar to a Ginnie Mae wrap on securities backed by eligible mortgages that finance multifamily housing properties, and paid for through risk-based premiums to be deposited into the risk insurance fund. These securities would carry a guarantee from the securitizing entities of timely interest and principal payment, supported by the insurance fund capitalized through risk-based premiums, and, when all other sources are depleted, backed by the full faith and credit of the U.S. government. This role would be similar to that of the U.S. government in a number of sectors and markets — federal deposit insurance in the banking system, terrorism risk insurance that backstops property and casualty risk, and federal pension insurance for private defined benefit plans are a few examples.
This carefully-crafted government role would ensure that private capital assume a significant risk position and allow for different forms of credit enhancement (including existing models and those that may be created). The risk insurance fund, ultimately backed by the full faith and credit of the U.S. government, would be structured in a manner that allows robust competition with other sources of private capital and create a level playing field. For example, in addition to its required return on capital, government-related mortgage pricing could take into account allocations to required risk-based capital for the entity, payments into a federal insurance fund, costs associated with the regulatory regime, and market conditions, all of which would be monitored and calibrated by a federal regulator.

Entities eligible would be privately capitalized, which would serve as a strong buffer before any federal backstop (whether the insurance fund or otherwise) would come into play. Importantly, entities separate and apart from potential successors to the GSEs also should be eligible to become issuers of government-backed securities. We would envision between two to twelve such entities, as determined by the market and a regulator, subject to principles, such as the goals of competition, strong and effective oversight, efficiency and scale, standardization, security volume and liquidity, ensuring against “too big to fail,” and, if applicable, the transition process for the existing GSEs. The current corporate-level government guarantee of the GSEs, including that on their corporate debt, would be eliminated by Congress as soon as practicable in a manner that minimizes market disruption.

We believe that a government backstop at the security level, standing behind private capital, would enhance the liquidity provided to the multifamily market. Even with the recent return of other sources of financing to the multifamily market, the federal government’s role through the GSEs has remained substantial. Sound policy should ensure that there is sufficient capacity to meet market demand for liquidity in all market cycles. Indeed, our members report that banks often rely on permanent financing provided by the GSEs, as evidenced by underwriting standards applicable to construction lending that largely conform to secondary mortgage market standards.

Equally important, the government guarantee, paid for through risk-based premiums, should be in effect at all times. Similar to the FDIC’s deposit insurance fund (backed by the full faith and credit of the U.S. Government), the continuous presence of a guarantee in the multifamily market would promote market stability through a proven mechanism with an explicit federal backstop. By contrast, a mechanism that remains dormant, but called to rapidly expand during market disruptions in order to meet the needs of a deep and complex market, would be extremely difficult to build and maintain.
We believe that entities eligible to issue government-backed securities should be subject to the following requirements.

First, a federal regulator (whether FHFA or a successor thereto) should provide strong oversight, including risk-based capital requirements for government guarantee-eligible products, a review process to ensure the well-underwritten character of the types of products that are government guarantee-eligible, and safety and soundness regulatory powers, including examination and enforcement authority. The risk-based capital standards should be prudent and take into account Basel III standards as reflected in U.S. rulemaking. We believe that the regulator should have sophisticated knowledge and expertise regarding the real estate finance market. In particular, the regulator must be sensitive to market dynamics and capable of identifying well-underwritten products that serve the core multifamily finance market. We believe that a regulator could make determinations regarding a range of long-term financing products that would be eligible for government backing based on market and performance data. By contrast, we do not believe that eligible mortgage products should be defined in a static manner by statute or regulation.

Second, the private capital of entities issuing guaranteed securities would assume a significant risk position. This entity-level buffer would place private capital at risk ahead of the government-backed securities, aligning its interests with that of the federal government. Any proposal that, by contrast, would place a government guarantee on certain specified mortgage products only, without entity-level safeguards and standards, would be misguided.

Third, the issuing entity would pay an appropriate guarantee fee that adequately compensates the government and taxpayers for the risk in the guarantee. The risk-adjusted premiums would be deposited in a federal insurance fund for catastrophic losses, drawn upon only if and when the entity itself becomes insolvent. As noted above, the pricing of the government backstop could be structured in a manner that allows robust competition with other sources of private capital, taking into account market conditions and the presence of various capital sources in the market. Similar insurance funds administered by the FDIC could serve as models.
Fourth, while the issuing entities would need to be able to attract private capital and maintain financial viability relative to the risk being assumed, they should be subject to certain core limitations. We believe that they should be mono-line, with their activities being limited to the secondary mortgage market and to the housing finance sector. In other words, the mono-line focus of the entities should be multifamily finance and/or single-family residential finance, depending on the business of the entity. A mono-line structure, with segregated assets, would facilitate capital adequacy determinations and government-mandated limitations and purposes.

Finally, the availability of uninterrupted liquidity to support the workforce rental housing market is essential. By its very nature, multifamily rental housing tends to be affordable, with rents generally at or below area median income. We believe that new or successor issuing entities should be focused broadly on the affordable segment of the multifamily housing market. We underscore, however, that the manner in which any affordability objective is effectuated is important. We recommend an approach in which the vast majority of the annual cohort of an issuing entity’s multifamily activities finance properties with units affordable to families at or below 100 percent of area median income. Other affordability thresholds also could be appropriate. Overall, we recommend a rational approach that clearly advances policy objectives to support workforce rental housing and provides flexibility, as determined by the regulator subject to market conditions, during periods of market disruption and illiquidity. Such affordability standards should also be balanced with the need for the new or successor entities to attract private capital and better manage risk through diversifying their mix of business within the multifamily finance market.

We would caution against a requirement expressly tying the availability of a government guarantee to the affordability of a specific property, given the range of rents within any individual property and other complexities raised by such an approach.

4. Stewardship of existing GSE assets and resources on behalf of taxpayers should be a core consideration for any policymaker action — during the current period of conservatorship, any transition period, and in the future state of multifamily finance.

The GSEs are subject to FHFA’s conservatorship and the Treasury Department’s controlling interest pursuant to the preferred stock purchase agreement originally entered into in September 2008. The Treasury Department’s August 2012 announcement on the most recent amendment to the agreement, requiring an expedited reduction in the GSEs’ retained portfolios and an all income sweep of the GSEs’ profits (but for specified capital reserve amounts), further underscores the integral tie between these entities and the federal government.
As the GSEs are entities effectively controlled by the federal government, we urge federal policymakers — in the Administration, FHFA, Congress and elsewhere — to exercise stewardship with regard to the resources and assets of the GSEs’ multifamily businesses for purposes of strengthening the transition to the future state of multifamily housing finance.

While it is clear that the current state of the GSEs will not — and should not — last indefinitely, policymakers should ensure the ongoing stewardship of valuable resources that support the multifamily market, utilizing them to transition to a strong multifamily housing finance system. The resources of the GSEs, as taxpayer assets, should be preserved to support an orderly transition — over a five to ten year period — to a new mortgage finance system and ultimately to optimize potential returns to taxpayers. The talent, expertise and intellectual capital of their staff are enormously valuable to the federal government, and the future deployment of these resources should be a core consideration in the transition to the future state. Similarly, the existing $290 billion in multifamily books of business should be considered a taxpayer asset, and should be viewed in a manner that supports the pathway to the future state of multifamily finance.

The market executions of the GSEs in the multifamily housing market are of value as well. Each utilizes a distinct structure as its primary execution and, as observed by FHFA, both attract private capital that assumes a substantial credit risk position coupled with a reliance on the government guarantee. Such innovations that effectively belong to taxpayers should be carefully managed.

As described in the report to Congress by FHFA’s Inspector General, the GSEs’ multifamily businesses, as entities in conservatorship, made $7 billion in profits from 2008 through the end of the third quarter of 2011. During the period of conservatorship, we recommend that Treasury and FHFA take steps to dedicate profits from the GSEs’ multifamily businesses toward supporting the development of a new multifamily finance system.

We also believe that the Treasury Department’s majority ownership interest in the GSEs should be carefully phased out over time in a manner that serves the interests of taxpayers. The reduction of the federal government’s role given its effective ownership, for example, would inevitably require close government supervision. Policymakers should consider steps to facilitate the capitalization of the equity and debt of new issuing entities. Such tools should be available to policymakers in attracting private capital to the new entities in order to increase the return to taxpayers and to strengthen the multifamily finance market with sustainable private capital.


Ensuring Liquidity and Stability: the Future of Multifamily Housing Finance and the Government-sponsored enterprises

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5. The long-term liquidity and stability of the multifamily finance system in all market cycles, rather than whether the existing multifamily business lines could survive as ongoing businesses, should be the core driver of whether the GSEs' multifamily businesses should operate on a standalone basis.

FHFA’s 2012 scorecard for the GSEs in conservatorship, consistent with FHFA’s strategic plan for the GSEs in conservatorship, requires the GSEs to “[u]ndertake a market analysis by December 31, 2012, of the viability of multifamily business operations without government guarantees [and to] [r]eview the likely viability of these models operating on a stand-alone basis after attracting private capital and adjusting pricing if needed.”

We strongly believe that whether the GSEs' multifamily businesses should operate on a stand-alone basis should not be determined in a vacuum nor based solely on the financial viability of multifamily standalone enterprises without government guarantees. This, we submit, would be short-sighted and ignore the public significance of the multifamily housing sector.

We also caution that the multifamily finance market and the role GSEs play should not be viewed as a potential “thought experiment” to test out scenarios for the broader mortgage market. Sudden or dramatic changes, for example, would be highly disruptive and cause harm to the multifamily finance system. While policymakers may wish to continue to explore options on the potential role for standalone multifamily secondary market entities, the do no harm principle should govern, particularly in light of the stability and successes of the multifamily market overall.

Rather, the primary drivers of this determination should be whether a standalone scenario would meet the core principles articulated above. That is, initiatives regarding the GSEs’ multifamily businesses should reflect the importance of multifamily rental housing and the need for liquidity and stability in all market cycles. The outcome should attract private capital as the primary source of financing for multifamily housing, while providing a well-defined government role to ensure liquidity and stability in all market cycles. Taxpayers and the system should also be protected, and the government must exercise stewardship, including with regard to the preservation of existing resources valuable to the U.S. government.

Whether or not successor entities to one or both multifamily businesses of the GSEs (or other eligible entities) operate independent of single-family credit guarantee operations, it is vital that the federal government serve as a catastrophic insurer to enable uninterrupted liquidity in the multifamily housing finance market. Ultimately, any secondary market entity should strengthen the future state of — and the path to — a stronger multifamily housing finance system.

Conclusion

Any policy resolution on the future of the housing finance system must consider the importance of the multifamily housing market. As the discussion on the future of the GSEs continues, MBA — representing all segments of the real estate finance industry — will continue to provide information and recommendations to policymakers that support the long-term strength and stability of the multifamily housing market and the housing finance system as a whole. Please do not hesitate to contact MBA with any questions.

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About MBA

The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation’s residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,200 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA’s Web site: www.mortgagebankers.org.