GSE Multifamily Housing Finance Reform

Reforms should promote continued liquidity and stability in multifamily housing finance.

BACKGROUND

Over a decade has passed since the Enterprises were placed into government conservatorship. Despite the intent that conservatorship would serve as only a *temporary* bridge to stabilize the Enterprises, the conservatorship persists and the Enterprises' long-term status remains unresolved. GSE reform bills have been introduced in Congress; MBA and other organizations have released white papers and other documents suggesting visions for the future of the GSEs and housing finance.

Multifamily rental housing is a critical part of the U.S. housing market and it is vital to our communities. More than one in three American households' rent their home, and about 19 million households live in multifamily rental housing (developments with five or more units). 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. Importantly, multifamily rental housing provides affordable housing, with over 90 percent of multifamily rental apartments having rents affordable to households earning area median incomes or less.

Capital sources that finance the multifamily housing market include Fannie Mae and Freddie Mac (GSEs), life insurance companies, commercial banks, commercial mortgage-backed securities (CMBS) issuers, REITs, pension funds, the Federal Housing Administration (FHA) and others. While all sources play an integral role in supporting the multifamily market, each has its own focus, strength, and limitations.

MBA POLICY PRINCIPLES

Recognizing the unique attributes of the multifamily market, MBA recommends that policymakers pursue the following principles in shaping the government's role in the multifamily housing finance system as it relates to the future of the GSEs.

- **Our nation's multifamily housing finance system should rely on private capital.** Private capital should be a primary source of financing for multifamily rental housing. A broad range of lending institutions should compete in the multifamily finance market. Government policies should maintain this reliance on private capital going forward.

- **Past experience shows that the federal government is the only entity that can ensure the availability of liquidity in all market cycles.** The financial crisis demonstrated that only the federal government can ensure liquidity through all market cycles. As demonstrated by the conservatorship of Fannie Mae and Freddie Mac, the federal government will fill this role when necessary. Government policies should anticipate and prepare for this role.

- **The government should ensure liquidity for multifamily mortgages through a carefully crafted guarantee on multifamily mortgage-backed securities.** The federal government should provide a paid-for catastrophic backstop guarantee on mortgage-backed securities. The catastrophic backstop role would be similar to that of the U.S. government in a number of sectors and markets, including federal deposit insurance in the banking system. This government backstop should be available at the mortgage-backed securities level (rather than at the level of the issuer, as it is today with the GSEs) at all times to ensure liquidity in the multifamily finance market.

- **Taxpayers and the mortgage finance system itself should be protected through a strong regulatory framework and multiple layers of private capital.** To protect taxpayers and the system itself, the government-guarantee-related market should be subject to strong and independent regulatory oversight and risk-based capital requirements. Taxpayers also should be protected through multiple layers of private capital, including the equity in the multifamily property itself and the entity-level capital of the security-issuing entity and any risk sharing it may undertake. A federal risk insurance fund should also be established and capitalized by risk-based premiums paid by participating firms. Only when all layers of capital are exhausted would a draw on the U.S. Treasury be authorized.

- **Policymakers emphasize a distinct focus on affordable and workforce rental housing and should protect and preserve existing resources, as well as support greater transparency, during the transition to an overhauled housing finance system.** Within the business of providing long-term liquidity for the multifamily market, there should also be a focus on affordable and workforce rental housing. In addition, given the significant role of the GSEs in the multifamily market, their infrastructures, capacities and resources should be carefully managed to avoid disrupting capital flows, as well as to ensure an orderly transition to a new housing finance system. In particular, FHFA should refrain from sudden or abrupt actions that could disrupt capital flow and jeopardize the GSEs' platforms in multifamily finance.

MBA GSE REFORM WHITE PAPER

MBA focused considerable attention on the multifamily market when it developed its April 2017 white paper: *GSE Reform: Creating a Sustainable, More Vibrant Secondary Mortgage Market*. Among the recommendations, MBA supports a future state with two or more Guarantors engaged in securitizing and guaranteeing multifamily mortgages, single-family mortgages or both, under a utility-like business model.

The Guarantors would be owned by private shareholders, but the Guarantors' MBS would be backed by an explicit government guarantee for which they would pay actuarially sound premiums.

Taxpayers would be protected by several layers of protection, including risk sharing/transfers, each Guarantor's capital cushion, and a mortgage insurance fund. Guarantor debt obligations would not be backed by the government.

MBA recommends leveraging existing GSE infrastructure and processes, such as the GSEs' respective multifamily executions that provide liquidity and transfer significant risk to private capital, in the end state.

RECOMMENDATION

MBA will continue to advocate for reforms and results at FHFA, the GSEs and in Congress consistent with the principles above and with continued liquidity and stability in multifamily housing finance.

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