



NHC POLICY STATEMENT

GOVERNMENT SUPPORT FOR THE FINANCING OF MULTIFAMILY RENTAL HOUSING

Final, Sept. 28, 2010

The debate on the future of Fannie Mae and Freddie Mac (the “Government-Sponsored Enterprises” or “GSEs”) has focused primarily on the role of these entities in financing single-family homeownership. However, the GSEs have also played a major role in financing multifamily housing, including and especially multifamily rental housing.¹ Given the fundamental importance of multifamily rental housing in meeting Americans’ housing needs, any overhaul of the government’s role in the nation’s housing finance system must ensure the continued availability of capital to preserve and develop multifamily rental housing.

In September 2009, the National Housing Conference (NHC) set out a series of [ten principles](#)² that NHC believes should guide the debate on the future of the nation’s housing finance system and the government’ role in that system. The recommendations below build on those initial principles to specify specific guidelines for the future of government support for multifamily rental housing (defined here as rental developments with five or more units).³

1. **Any restructuring of the nation’s housing finance system must ensure the ongoing availability of capital to preserve and develop multifamily rental housing.** Some 15 million U.S. households live in multifamily rental housing, defined as rental housing with five or more units. These households represent more than 13 percent of all U.S. households and nearly 43 percent of U.S. renters.⁴ Reliable capital sources are needed to enable the multifamily rental sector to continue to meet America’s housing needs.
2. **Multifamily housing finance must be addressed squarely and directly.** While many of the proposed systems for providing government support for single-family lending could be adapted to meet the needs of the multifamily rental housing market, not all would work equally well. Multifamily finance must be addressed directly, rather than as an afterthought to the larger debate.

¹ While these principles focus specifically on multifamily rental housing, we note that many of the considerations applicable to financing multifamily rental housing also apply to financing multifamily condominiums and cooperatives.

² Available here: http://www.nhc.org/media/files/NHC_Housing_Finance_Policy_Principles_FINAL1.pdf.

³ These recommendations build on the findings of an analysis commissioned by NHC and prepared by Recap Real Estate Advisors. The analysis is based on interviews Recap conducted of a wide range of practitioners as well as their own experience in the multifamily sector.

⁴ 2009 American Housing Survey Table 1-1. U.S. Census Bureau. Access on August, 27, 2010 at <http://www.census.gov/hhes/www/housing/ahs/ahs09/ahs09.html>.

As the debate proceeds, it will be important to consider the differences between the single-family and multifamily markets. One key difference is the fact that the existing system for financing multifamily housing – particularly the lending supported by Fannie Mae and Freddie Mac – has performed much better than the system for financing single-family housing. As of 2009, the GSEs’ current multifamily mortgage and Mortgage Backed Securities (MBS) portfolios had distress rates of less than 1%, compared to roughly 7% for multifamily Commercial Mortgage Backed Securities (CMBS) and roughly 11% for the single-family market as a whole.

The soundness of the GSEs’ existing book of multifamily business opens up a range of policy options that merit consideration for more effectively meeting the nation’s current multifamily housing needs. These options include relaxing the current constraints on multifamily lending under the conservatorship; introducing some elements of the proposed final solution – such as an explicit government guarantee wrap of securities backed by loans underwritten by the GSEs – now, before new entities are chartered; or even moving forward with a resolution of the multifamily finance system first, without waiting for the single-family foreclosure crisis to play out to more fully assess the extent of the GSEs’ single-family losses.

- 3. Private capital is indispensable for funding multifamily rental housing, but private capital by itself – without government backing in some form, such as a federal guarantee – is not sufficient to reliably meet the full range of the nation’s multifamily finance needs.** In particular, government backing is needed to ensure the ongoing availability of long-term fixed rate mortgages for multifamily housing as well as the availability of credit for multifamily lending during financial downturns. Long-term fixed-rate mortgages help to attract a wider range of investors, ensuring that more multifamily deals can get done and thus helping to boost the supply of multifamily rental housing. They also play an essential role in ensuring properties can comply with the requirements of the Low-Income Housing Tax Credit program over the full fifteen-year compliance period.

Government backing also provides essential countercyclical liquidity for multifamily lending. As the present financial downturn illustrates, private capital dries up quickly in the event of a financial crisis. Without government backing, financing will be largely unavailable during downturns to fund the preservation and creation of new multifamily rental housing as well as to ensure that existing properties can refinance to ensure their ongoing viability.

- 4. To fully meet the diverse range of multifamily housing needs and ensure a competitive marketplace exists to hold down costs and encourage the development of specialized expertise, it is important that government support for multifamily lending be provided through multiple channels.** The Federal Housing Administration has a critical role to play in supporting multifamily lending, particularly for more complicated and non-standard transactions. With more capacity and more flexibility, FHA could meet a broader range of the market’s needs. At the same time, however, there are limits inherent in the government structure of FHA that suggest the continued need for GSEs – or successors to the GSEs – that have the authority to assign a government guarantee or other federal backing to multifamily loans and package those loans for sale to the secondary market. As nongovernmental entities, the GSEs can respond more quickly and efficiently to the financing needs of the multifamily rental housing sector and have a greater ability to rapidly scale up in the event a financial downturn causes other financing sources to exit the market.

5. **The most efficient and effective way to provide the additional government backing needed to ensure continued access to capital for multifamily rental housing is to provide for a government guarantee wrap of the Mortgage Backed Securities backed by one or more multifamily loans that the GSEs or their successors underwrite.** The guarantee wrap should ensure timely payment of principal and interest, including full payment at maturity, be explicit in its potential cost, be priced to allow transparency of government exposure, and be focused on public benefit.

To minimize risks to taxpayers, the GSEs or their successors should be required to maintain minimum capital levels and their lending standards and execution should be carefully overseen by federal regulators. Under this approach, any loan losses not recoverable from the project or lender would be covered first by the GSEs and then by the accumulated guarantee fees. Only if all these sources proved insufficient would taxpayers be responsible for losses.

6. **The government's principal interest is to guarantee loans for housing at rent levels affordable to low-, moderate-, and middle-income households throughout the United States.**
7. **Strong government regulation is necessary and desirable to ensure the safety and soundness of the multifamily financing activities of the GSEs or their successors, as well as to ensure they make multifamily credit available for underserved market segments, including small multifamily loans (5 to 50 units) and in rural, lower income and other underserved markets.** Regulation should help to target GSE involvement in areas where it is most needed without crowding out private capital.
8. **The GSEs or their successors have important roles to play in supporting the financing of affordable housing, including providing long-term fixed-rate financing for low-income housing tax credit properties. But regulators should be careful not to push them to reduce lending standards to unprofitable levels in order to meet arbitrary targets.** A better approach would be for the regulator to work collaboratively with the GSEs to identify opportunities to take advantage of their expertise and market channels to test new approaches that could ultimately be profitable, either on their own, or in conjunction with separately funded subsidy or credit enhancement by the government.

In addition, funding should be made available to subsidize affordable rental housing for very-low and extremely-low income households through such mechanisms as the National Housing Trust Fund and the Capital Magnet Fund.

9. **The GSEs or their successors will need a limited portfolio capacity for multifamily housing to support many of their core functions.** For example, they may need to season certain types of loans before packaging them for sale to the secondary markets. However, **the large majority of their multifamily business should be to package loans directly for sale to the capital markets.**
10. **It could take several years to transition to a new housing finance system. During this interim period, the existing GSE channels for supporting multifamily lending should be maintained to ensure the ongoing availability of credit for multifamily rental housing.**