Multifamily Housing Finance Reform

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About Enterprise Community Partners

- **Enterprise is a national nonprofit organization** that finances, builds and advocates for affordable housing for low- and moderate-income households

- **Enterprise Community Loan Fund**: Treasury-certified community development financial institution (CDFI)

- **Enterprise Community Investment**: affordable housing investment group with a primary focus on Low-Income Housing Tax Credit syndication

- **Bellwether-Enterprise Real Estate Capital**: multifamily and commercial mortgage originator

  ✓ **Bellwether-Enterprise is a Fannie Mae DUS Lender and Multifamily Affordable Housing Lender, as well as a Freddie Mac Program Plus Seller Servicer and Targeted Affordable Housing Lender**
America’s Rental Housing Crisis

- Moderately Rent Burdened (30-50% of income on rent)
- Housing Insecure (50%+ of income on rent)

Percent of All Renter Households (%)


- 1960: 12%, 14%
- 1970: 13%, 18%
- 1980: 18%, 20%
- 1990: 20%, 18%
- 2000: 20%, 18%
- 2010: 27%, 23%
- 2014: 26%, 23%
### Key Differences between SF and MF Housing Finance

<table>
<thead>
<tr>
<th></th>
<th>Single-Family</th>
<th>Multifamily</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Larger market</td>
<td>Larger market (~$10 trillion in debt outstanding)</td>
<td>Smaller market (~$1 trillion in debt outstanding)</td>
</tr>
<tr>
<td>✓ Smaller loans</td>
<td>Smaller market (~$1 trillion in debt outstanding)</td>
<td>Larger loans (~$10 million on average)</td>
</tr>
<tr>
<td>✓ Relatively little</td>
<td>Relatively little risk-sharing</td>
<td>Risk-sharing is a key component of the business model</td>
</tr>
<tr>
<td>✓ Relatively few</td>
<td>Relatively few sources of private capital</td>
<td>Several private sources of capital for certain market segments</td>
</tr>
<tr>
<td>✓ Standardized</td>
<td>Standardized products to ensure an efficient TBA market</td>
<td>More loan customization</td>
</tr>
<tr>
<td>✓ Source of significant GSE losses during the mortgage crisis</td>
<td>Source of significant GSE losses during the mortgage crisis</td>
<td>GSE businesses were profitable throughout the mortgage crisis</td>
</tr>
</tbody>
</table>
Sources of Multifamily Capital

- **Fannie Mae & Freddie Mac** (34%) - serve a wide geography and a range of income levels and housing types, during both good and bad economic times.

- **FDIC-Insured Banks & Thrifts** (35%) - typically offer floating-rate, short-term debt, serving a broad range of lenders and communities.

- **Federal Government** (9%) - includes Ginnie Mae securities backed by mortgages insured by the FHA, USDA and others; often high-leverage loans with terms of up to 40 years with construction financing as part of the permanent loan.

- **Conduits for CMBS** (6%) - securities issued by financial institutions made up of multifamily, office, retail and other loans that are not backed by the federal government; typically highly cyclical.

- **Life Insurance Companies** (6%) - historically have preferred to finance “Class A” multifamily assets, such as luxury apartment buildings in top-tier housing markets.

- **Other Sources** (12%) - includes state and local governments, private pension funds, Real Estate Investment Trusts and nonbank corporate businesses.
Multifamily Debt Outstanding by Capital Source

- GSEs
- Government Agencies (federal, state local)
- Banks & Thrifts
- Other Private

Total multifamily debt outstanding ($B)

- 2006
- 2007
- 2008
- 2009
- 2010
- 2011
- 2012
- 2013
- 2014
- 2015
Share of the Multifamily Market by Year

<table>
<thead>
<tr>
<th>Year</th>
<th>% GSE</th>
<th>% FHA</th>
<th>% Private Sector</th>
<th>Total Multifamily Volume ($B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>79%</td>
<td>10%</td>
<td>1%</td>
<td>$0</td>
</tr>
<tr>
<td>2006</td>
<td>80%</td>
<td>10%</td>
<td>1%</td>
<td>$50</td>
</tr>
<tr>
<td>2007</td>
<td>76%</td>
<td>1%</td>
<td>23%</td>
<td>$100</td>
</tr>
<tr>
<td>2008</td>
<td>53%</td>
<td>2%</td>
<td>46%</td>
<td>$150</td>
</tr>
<tr>
<td>2009</td>
<td>35%</td>
<td>6%</td>
<td>59%</td>
<td>$200</td>
</tr>
<tr>
<td>2010</td>
<td>40%</td>
<td>15%</td>
<td>45%</td>
<td>$250</td>
</tr>
<tr>
<td>2011</td>
<td>50%</td>
<td>11%</td>
<td>40%</td>
<td>$300</td>
</tr>
<tr>
<td>2012</td>
<td>50%</td>
<td>10%</td>
<td>40%</td>
<td>$350</td>
</tr>
<tr>
<td>2013</td>
<td>58%</td>
<td>10%</td>
<td>31%</td>
<td>$400</td>
</tr>
<tr>
<td>2014</td>
<td>63%</td>
<td>6%</td>
<td>31%</td>
<td>$450</td>
</tr>
</tbody>
</table>
Existing GSE Multifamily Businesses

**Fannie Mae Delegated Underwriting and Servicing (DUS) Program:**

- Licensed lenders originate eligible multifamily loans and agree to cover a portion of all losses on a pari passu basis (two basic options) while Fannie covers the rest.

**Freddie Mac K-Series Program:**

- Freddie purchases eligible multifamily loans, aggregates the loans into pools and sells off the top 15% of losses to private investors, while Freddie guarantees the remaining 85%.

**Affordable Housing Goals & Duty to Serve:**

- Both companies must hit annual unit targets for support to low-income and very low-income households, as well as affordable small multifamily properties.

- Additional “Duty to Serve” obligations to rural communities, affordable housing preservation and manufactured housing.
Multifamily Delinquency Rates by Capital Source

- Fannie Mae (60+ days)
- Freddie Mac (60+ days)
- FDIC-insured institutions (90+ days)
- CMBS conduits (foreclosures & REOs)
Affordability Levels of GSE-Financed Multifamily Units

- Workforce and market-rate (>80% AMI)
- Affordable to low-income families (50-80% AMI)
- Affordable to very low-income families (<50% AMI)
- Total GSE multifamily units

% of multifamily units financed by the GSEs

- 2006
- 2007
- 2008
- 2009
- 2010
- 2011
- 2012
- 2013
- 2014

Total GSE multifamily units
Our Recommendations for Housing Finance Reform

- Establish an **explicit, limited and paid-for government guarantee** on qualifying single-family and multifamily mortgage-backed securities, with private investors taking a loss before taxpayers.

- Preserve the **current GSE multifamily businesses** while ensuring that those business continue to focus on affordable rental housing.

- Establish an **annual assessment of at least 10 basis points** on all government-insured mortgage-backed securities to fund affordable housing initiatives through the National Housing Trust Fund and the Capital Magnet Fund.

- Ensure **broad access to the mortgage market** for all eligible borrowers and support to small lenders, particularly those in low-income urban and rural areas.

- Continue to **test the securitization of small multifamily loans**, which are a crucial source of affordable rental housing for low-income families.

- Preserve the **dual mission of the Federal Housing Administration** while taking steps to shore up the agency’s long-term financial health.
National Housing Trust Fund:

- Created in 2008, inaugural round of $174M allocated to states in May 2016 through a needs-based formula
- Specific funding decisions determined by states, but all HTF resources must support development or preservation of housing for extremely low-income households

Capital Magnet Fund:

- Created in 2008, inaugural round of funding in 2010 ($80M), second round of funding in 2016 ($91M)
- Competitive grants issued to Treasury-certified CDFIs primarily for the preservation, rehabilitation or purchase of affordable housing, with all funds leveraged at least 10:1 by private sources
Additional Resources

- Terri Ludwig, *Housing Finance Reform: Essential Elements of the Multifamily Housing Finance System*, Enterprise testimony before the Senate Banking Committee (October 2013)


- Michael Berman and Mark Willis, *Multifamily GSE Reform: A Different Road*, Urban Institute (May 2016)

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Learn More about Enterprise at:
www.EnterpriseCommunity.org