



October 10, 2013

Please contact any of the authors below if you have questions regarding this alert.

Banking Committee Examines Multifamily Housing Reform

Authors:

Andrew Olmem
aolmem@Venable.com
202.344.4717

Hillary S. Profita
hsprofita@Venable.com
202.344.4571

Yesterday, the Senate Banking Committee continued its examination of housing finance reform with a hearing on multifamily housing. The hearing, entitled *Essential Elements of the Multifamily Housing Finance System*, featured testimony from Mr. Thomas S. Buzzuto, Chairman and CEO of The Bozzuto Group, on behalf of the National Multi-Housing Council and the National Apartment Association; Mr. E. J. Burke, Executive Vice President and Group Head, KeyBank Real Estate Capital, Key Corporate Bank, on behalf of the Mortgage Bankers Association (MBA); Mr. Shekar Narasimhan, Managing Partner, Beekman Advisors; and Ms. Terri Ludwig, President and CEO, Enterprise Community Partners, Inc.

In his opening statement, Chairman Johnson (D-SD) indicated that his goal for the hearing was to highlight the key strengths and weaknesses of the GSEs' multifamily operations both before and during the financial crisis so as to inform the Committee's discussion of housing finance reforms. In particular, he sought to determine how reforms to the multifamily housing finance system should be structured and regulated and how they might impact rural and small communities, small lenders, the workforce, and the supply of affordable housing. He stated that any reforms must ensure broad access to credit going forward. Chairman Johnson noted that multifamily securities had default rates of less than one percent during crisis, and that the GSEs provided liquidity to the multifamily sector when other sources of financing withdrew.

Ranking Member Mike Crapo (R-ID) noted that the strong performance of the GSEs' multifamily mortgages provides lessons for the Committee as it works on housing finance reform. He pointed out that Fannie Mae and Freddie Mac require private-sector risk-sharing on all multifamily loans and maintained strict underwriting to ensure that they underwrote only high-quality multifamily mortgages. Ranking Member Crapo also noted that the GSEs' market share of multifamily loans has risen dramatically since the crisis and hoped that the hearing would provide insights into how to increase the private sector's share.

The witnesses provided a range of recommendations on how to reform the multifamily market. Each supported an explicit guarantee for multifamily mortgage-backed securities. Mr. Bozzuto cautioned against an affordable housing mandate for multifamily since, in his view, multifamily housing is inherently affordable with 82 percent of existing apartments being affordable by common affordability measures. Mr. Burke discussed MBA's proposal for a government corporation to function as a catastrophic guarantor, administer a risk insurance fund, and regulate secondary market entities. Mr. Narasimhan proposed spinning off the GSEs' multifamily businesses as privately capitalized entities with government guarantees limited to the securities they issue. Ms. Ludwig also proposed spinning off the GSEs' multifamily businesses while providing access to a government guarantee for its securities from a public guarantor. She also expressed support for an explicit affordable housing mandate that would require not less than 60 percent of all rental units financed with government-guarantee securities be to for low-income families.

If you have any questions concerning this alert, please contact either of the authors.

If you have friends or colleagues who would find this alert useful, please invite them to subscribe at www.Venable.com/subscriptioncenter.

CALIFORNIA | DELAWARE | MARYLAND | NEW YORK | VIRGINIA | WASHINGTON, DC

1.888.VENABLE | www.Venable.com