NAAHL/Center for Community Lending Multifamily Summit Report

Readily-available, consistently-priced, and long-term financing for affordable rental properties is critically needed in the United States, especially for the small (5 to 50 units) properties that constitute a majority of the market. Without such permanent financing, it will be difficult to preserve and expand the supply of affordable rental properties that families are proud to call home.

That is the consensus from a summit of the nation's leading affordable rental housing lenders and investors that provide private capital to finance these properties, both with and without, public subsidy. In the wake of the financial crisis and ongoing demographic and economic changes, lenders urge policymakers to promote a more balanced Federal housing policy that recognizes the increased need to finance small multifamily properties that provide the vast majority of our nation's workforce and affordable rental homes.

Lenders operate in local, distinct markets across the country, in different cities and states, serving the specific needs, resources, and demands of small building owners, so no single loan product would work nationally.

The future depends on building on the success of what we know has worked: local lenders with solid track records and strong balance sheets in bringing private capital to filling local mortgage market gaps.

To ensure sustainable financing for affordable rental properties in the U.S., three principles should guide future policymaking.

Federal Housing Policy Should Recognize the Realities of Affordable Rental Housing: Most are Small Properties, Outside of Cities, Without Government Subsidies or Access to the Capital Markets

Federal housing policy has historically neglected the heart of the nation's affordable rental housing business: smaller properties (5-50 units) financed predominately by private capital.

John Weicher, former HUD Assistant Secretary for Housing and FHA Commissioner during the George W. Bush Administration, published a valuable new analysis of the nation's affordable rental housing from 1985 to 2005. Weicher emphasizes that "affordable" is NOT a synonym or euphemism for "assisted", documenting that:

- Nearly 90% of the nation's affordable rental housing is in properties with 49 or fewer units, and is "naturally affordable". These rentals involve no government assistance, yet are affordable to households earning half of the local median income spending no more than 30% of income.
- Individuals – often local "Ma and Pa" entrepreneurs – own the vast majority of affordable rental properties, 54% of which are outside of central cities, in suburbs or outside of Metropolitan Statistical Areas (MSAs).
- Historically, the Federal government's role in affordable rental housing financing has focused only on the "top 10%", the larger, 100-unit plus properties, as the typical FHA multifamily property has 120 units, and Fannie Mae and Freddie Mac have also emphasized larger properties.

Financing Affordable Rental Homes Requires Readily-Available, Consistently-Priced, Long-Term Credit

Private capital has played an essential role in financing small properties, but there is a growing gap between demand for financing affordable rental properties and the supply of funds to lend. The Federal government can play an important role in mitigating constraints on that supply by facilitating liquid, reliable, local markets that ensure stable, long-term access to private capital markets and diverse funding sources.

Government Has an Important, Limited Role to Play

As the need for more rental homes affordable to the elderly, disabled, and workforce households grows, the Federal government should provide incentives to increase the sources and supply of private capital to expand financing, while taking only a remote risk position in the event of catastrophic loss.

Government involvement should build on the successes of mission-driven lenders in financing small properties that help "fill in the gaps" in private sector financing for affordable rental homes. Many of these mission-driven lenders finance small rental properties through pooled loan funds that allow banks and other fund investors to diversify the credit and rate risks of long-term multifamily mortgages. For example, over the past 20 years, 20 blue-chip, multibank loan consortia have financed over half a million rental homes with more than $10 billion in multifamily mortgages.

There is an emerging consensus that Federal policy should build on these proven private capital providers that can bear significant risk ahead of the government. The Federal role in housing finance should be transparent, on-budget, and require lender "skin in the game." Some recent proposals meet these criteria. These initiatives address a critical but long overlooked part of the multifamily market: liquidity for mortgages on small multifamily properties to help meet the growing demand for affordable rental homes. Risk-sharing can help increase capital flows to smaller projects and diversify the funding sources. FHA and Ginnie Mae can help fill in local market gaps and expand the role of private capital sources and uses in housing finance.

- Expanding the existing FHA 542(b) multifamily risk-sharing program to encompass highly-qualified, nonbank mortgage lenders that provide private capital to small multifamily properties with 50 or fewer units, or mortgages under $3 million dollars.

  Existing FHA full insurance programs are not well suited to small properties and "Ma and Pa" landlords. Heretofore only available to state and local government housing finance agencies, Fannie Mae, and Freddie Mac, FHA's risk-sharing program should allow well-capitalized, mission-based lenders with successful track records to retain a large part of the risk of a multifamily mortgage, while FHA shares in some of the risk.

- Amending the Housing and Community Development Act of 1992 to allow additional highly-qualified lenders to apply to issue Ginnie Mae securities.

  Ginnie Mae's involvement would provide additional incentives to a diverse array of private investors to finance affordable rental properties and help to build a secondary market for mortgages on small multifamily properties.