The Daily Dish

Multifamily Housing and the GSEs

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Eakinomics: Multifamily Housing and the GSEs

Discussion of the housing government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, usually centers around their role in the mortgage market for single-family homes. As AAF's Thomas Wade points out, however, the GSEs have a large, increasing, and perhaps troubling presence in the financing of multifamily housing. "Multifamily housing" is buildings with five or more units, intended to be occupied by multiple families – put simply, any apartment block. Roughly 19 million households in the United States live in multifamily housing.

Fannie Mae's original charter (1938) authorized financing for rental housing projects, but it created a separate business division for this purpose in 1984. At present, its program creates a pre-approved list of lenders and financial institutions, which can fully underwrite, close, and sell loans on multifamily properties without the need for Fannie Mae's review. In other words, Fannie effectively outsources its underwriting authority directly to the source, although Fannie Mae still engages in some amount of ongoing monitoring and credit review. Freddie Mac's dedicated multifamily business line, Program Plus, goes back to 1993, although it is a decidedly smaller version, consisting of just over two-dozen approved seller/servicers.

As compensation for delegation of underwriting and servicing authority, lenders participate in a loss-sharing agreement with the GSEs. A typical arrangement is one where the lender bears one-third of losses, with the GSE responsible for the remaining two-thirds. Also, in the multifamily market there is less standardization, so the GSEs purchase "seasoned" loans – loans that have been held on the books of lenders and are current on payments for at least 12 months.

The GSEs' participation in the multifamily market has risen greatly in recent years, despite

the fact that there is a cap on the size of each GSE's multifamily portfolio. The caps have been circumvented by exemptions allowed by FHFA: (1) affordable housing projects, (2) manufactured housing and rural areas, (3) loans to senior housing properties, and (4) certain loans to finance energy- or water-efficiency improvements.

In 2016 and 2017, the caps were $36.5 billion for each GSE, but in 2016, each GSE acquired about $56 billion of new multifamily loans, and in 2017 Fannie acquired about $66 billion and Freddie acquired about $74 billion.

The GSEs are perverting the intent of the caps, which is an issue for FHFA. But the GSEs are also demonstrating that GSE reform can come in two pieces: single-family and multifamily. There is no necessary reason to yoke them together; it makes sense to move forward on whatever elements are most politically feasible.