



**Notes from the Multifamily Sessions at CREF
San Diego, CA
February 6 - 9, 2005**

There were a number of committee meetings, panels and other meetings at the CREF/Multifamily Convention. For those unable to attend some or all of the events, the following are some highlights.

Legislative Highlights/Outlook

- It was noted by Tari Flannery, Multifamily Committee Chair, that a significant legislative achievement for MBA was that FHA did not run out of commitment authority after the CREF Convention last year. MBA convinced Congress to pass an additional \$4 billion last fiscal year and the FY 2005 Appropriations bill contained \$35 billion – more than enough for this year.
- MBA Senior Vice President Kurt Pfothenauer explained that MBA has a number of legislative priorities this year that will affect the multifamily members, including GSE reform, TRIA reauthorization, REMIC reform and FHA empowerment. He also noted that tax reform this year will mean shifting the tax burden around rather than reducing taxes overall and that MBA will need to keep an eye on that legislation as it may affect the real estate industry.
- Mr. Pfothenauer indicated that he believes it is likely that GSE reform legislation will pass this year. He noted the contentious issues include: (1) whether the regulator will have receivership powers, (2) the type of new product/program approval authority the new regulator will have, (3) how the minimum capital requirement is structured, and (4) changes to the affordable housing goals requirements. He noted that MBA's top priority is the authority the regulator will have to police new programs and pointed out that MBA's position is to provide the GSEs with flexibility in the introduction of new products, but with a clear definition of a bright line between the primary and secondary markets. Noting that the Hagel bill recently introduced in the Senate has strong "bright line" language that may adversely affect the way the GSEs conduct their multifamily business, Mr. Pfothenauer assured the members that MBA will work to perfect the language as it moves through Congress.
- MBA's National Policy Conference will be held in Washington, DC April 19 – 20 and all multifamily members are urged to attend. A major focus of MBA's lobbying activities will be the enhancement of FHA, focused on several systemic/structural changes including providing FHA more autonomy in funding for technology, personnel practices and program changes. A registration form and schedule for the conference can be found on MBA's website.

Accounting/Reporting Issues

- The MBA was successful in convincing SEC staff to amend their original proposal that would have required lenders to account for loan commitments only as liabilities.
- FASB reached a tentative decision which would allow servicers to elect to account for mortgage servicing rights at either fair value or the lower of cost or market.
- The SEC has published a final rule on issuance, disclosure and reporting on asset backed securities. Several onerous provisions were changed from the proposed rule including the elimination of a requirement that all points and fees be disclosed. Fannie Mae and Freddie Mac securities are exempt from the provisions of the rule; however, it is expected that both GSEs will view the rule as “best practices” and will adopt many of the requirements. This may involve additional reporting by originators and servicers on loans being securitized by the GSEs. MBA will be hosting a conference call with SEC staff on March 1 during which the SEC staff will address questions that have been submitted by lenders. Additional information on the call will be published in CMFNewsLink.
- Issue Papers on all of these issues can be found on MBA’s website.

Education

- 20 new CMBs were announced at the Convention. All members were encouraged to consider becoming a CMB. Information on the requirements and process can be found on MBA’s web page and at CampusMBA.
- A new commercial/multifamily School of Mortgage Banking has been developed and will be presented July 10-15 in San Diego, Ca. To register for this or other education programs, go to www.campusmba.org.
- MBA has several new initiatives to facilitate diversity in member firms. Information on these opportunities can be found on MBA’s website at www.lendercareers.com and <http://www.welcomehomegi.com>.

Capital Markets Update

- Mike Marriott of CSFirst Boston provided an upbeat capital markets update noting that the investor base for multifamily continues to grow and “you can sell just about anything in this marketplace”. He stated that Asian investors are becoming increasingly important in all markets largely due to the large trade deficits being plowed back into investments in dollars. He expects to see the market cool off in 2005 as the Fed continues to “tap the brakes”. However, investors are flush with cash and looking for product, so it should be a very good year.

Rural Housing

- Shekar Narasimhan reported that he had been working with Rural Housing Services (RHS) to study their portfolio of over 17,000 properties, most of which involves direct loans under the Section 515 program. He suggested that mortgage bankers look into participating in the refinancing of these properties to recapitalize them with private financing either through the RHS Section 538 guarantee program or through Fannie Mae's or Freddie Mac's programs.
- He outlined the challenges of doing this business with a portfolio of properties with a 27-unit average size, 23 years average age, 74% of the tenants with some type of federal housing assistance and a median tenant annual income of \$9,074.
- RHS expects to issue a Notice of Funding Availability for the Section 538 program in the near future and RHS staff encouraged mortgage bankers to participate. Regulations and forms are available at <http://rdinit.usda.gov>. It was noted that properties must be in areas with populations up to 20,000.

Research/Surveys

- Jamie Woodwell, MBA Senior Director of Research, reported on MBA's new quarterly data book. He pointed out that the data book is a one-stop shop for commercial/multifamily data – both original data developed by MBA and aggregation of other data sources. He asked members to provide feedback on the usefulness of the data as well as other data that should be included. The data book can be located on MBA's website and Jamie can be reached at (202) 557-2936.
- MBA will also be publishing, in the near future, an industry-wide report on multifamily delinquencies by investor group.

FHA Program Concerns

- FHA Commissioner Weicher announced several highlights of the President's FY06 budget proposal:
 - A decrease in the MIP, for the Section 223(f) and Section 221(d)(4) program with tax credits and risk sharing, from 50bp to 45 bp.
 - This sets the expectation that most programs will now have a "break even" MIP that will move up or down with the performance of the portfolio.
 - A commitment authority level for the GI/SRI fund of \$35 billion (the same as FY05).
- Dr. Weicher addressed the issue of recent high claims in the multifamily program explaining that these claims reflect the traditional high incidence of claims in the first few years of a mortgage and the volume was not unexpected. He stated that "we are not terribly worried" and "we are in the business of taking risk and expect some claims".

- The Commissioner thanked MBA for its comments on the proposed new MAP closing documents and said that all of the comments were being reviewed and changes were being made. He stated, however, that the documents would be published in final form without another opportunity for the industry to comment. He did not provide a timetable for the publication or indicate how the use of the new documents would be phased in.
- Dr. Weicher reported that the Office of Housing was continuing to lose staff and that an additional staff reduction of 85 people would be required by the end of this fiscal year. He noted that the reduction would be handled through attrition conceding that this may not be the most effective means for achieving the reduction.
- Stillman Knight stated that it was not the Department's policy to allow non-profits to use replacement reserves or residual receipts for up-front costs of refinancing Section 202 loans. He also pointed out that the sponsors would have to meet all mortgage credit requirements of the FHA insurance programs if they apply to refinance through FHA and that the Department expected that to be a challenge for a number of Section 202 sponsors. Members agreed that additional guidance on a number of 202 refinancing issues is required and MBA will be following up with FHA staff to encourage publication of a Q and A or other issuance.
- There was some discussion of the Quality Control Plan requirements and it was agreed that MBA should continue to pursue changes to those requirements with HUD staff – particularly the number of loans that must be reviewed. It was noted that Notice 2004-06 which was published January 2004 imposes a number of requirements for a quality control plan that will probably affect multifamily lenders that originate loans under Traditional Application Processing (TAP).
- A subcommittee of MBA members continues to meet with FHA staff on a number of asset administration issues. A “best practices” guide for the Multifamily Default and Delinquency Reporting (MDDR) system has been submitted to HUD as well as suggested amendments to their insurance termination (Form 9807) process. Another meeting to advance these issues is being planned for March.
- A number of mortgagees expressed concern about the volume of reports required to be submitted to HUD for professional liability insurance under the Section 232 program. It was agreed that the requirements, although modified from the original version, continue to restrict business even for very well-run nursing homes. It was suggested that some clarity on what information might become public under the Freedom of Information Act would be helpful for some sponsors/lessees.

Ginnie Mae

- On February 4, Ginnie Mae issued an All Participants memorandum on the securitization of RHS Section 538 multifamily loans. The first Ginnie Mae MBS backed by a Section 538 loan will be issued in February by P/R Mortgage & Investment Corp.

- Ginnie Mae is investigating several new initiatives, including a multifamily Ginnie Mae II multiple loan pool program.
- Ginnie Mae is hoping to have GinnieNet on the web next year, should there be adequate funding for this initiative.

Fannie Mae

- Fannie Mae multifamily made several major announcements aimed at demonstrating that they remain very much in business, despite the challenging and very competitive environment.
- Noting that Fannie Mae met or exceeded all of their affordable housing goals, Richard Lawch indicated that of their multifamily business, 90% was affordable, 54% was special affordable and 45% was in underserved areas.
- Innovations for 2005 include:
 - Simplified underwriting
 - New products and improvements to existing products
 - Aggressiveness in competing in markets, where warranted
 - World class customer service
 - Communication improvements
- Fannie Mae staff see 2005 as another tough year for credit underwriting, but also see opportunity for Fannie Mae because investors want to partner with them to take risk that Fannie Mae is not comfortable taking.

Committee Participation

- The Multifamily Committee has the following subcommittees and working groups:
 - Multifamily Steering Committee
 - FHA Insurance Subcommittee
 - FHA Servicers Subcommittee
 - Ginnie Mae Industry Group
 - FHA Closing Document Working Group
 - Section 202 Working Group
 - Section 232 Working Group
 - FHA Quality Control Plan Working Group

- Those wishing to become involved in any of these groups should contact Cheryl Malloy (cmalloy@mortgagebankers.org) or Angela Epps (aepps@mortgagebankers.org).

Panel Sessions

Copies of the power point presentations for many of the panel sessions at the Convention are available at MBA's website at <http://www.mortgagebankers.org/present/index.html>. Audio recordings of many of the panels can also be purchased at <https://www.nrstaping.com/mba/mba2005.php>.