



Housing Finance Reform: Affordable Rental Housing at Stake

By the CAP Housing Team

When discussing potential reforms to the housing finance system, we typically focus on single-family homeownership. But a vibrant secondary market is also critical to multi-family rental housing. Indeed, Fannie Mae and Freddie Mac have been pivotal in preserving access to financing for affordable rental housing throughout the financial crisis.

Financing for affordable rental housing is crucial

The number of Americans who rent has increased in recent years, and none of the trends driving the increase in renters is expected to reverse in the short term. Today, more than one-third of all Americans rent their home, but many of them have trouble finding affordable places to rent. Half of renters pay more than 30 percent of their household income for their housing, which is officially considered to be a “rent burden.” Even more shocking, 27 percent of renters pay more than half of all their income for their housing.

Moreover, construction of rental units is falling behind demand, and we will soon lose hundreds of thousands of our existing affordable homes because the properties will no longer be subject to affordability restrictions or because their repair needs are so underfunded that the units may no longer be inhabitable. These trends will exacerbate the rental affordability crisis in the coming years.

Fannie and Freddie play an indispensable role in financing rental properties

By securitizing and guaranteeing multifamily loans, Fannie Mae and Freddie Mac encourage private capital to support multifamily construction and permanent financing. This support is targeted toward affordable units: two-thirds of the loans guaranteed in 2012 supported affordable housing. Under these programs—unlike the single-family sector—the private sector shares the risk of default.

During the financial crisis, private capital withdrew precipitously from the rental housing market. Fannie Mae and Freddie Mac, along with the Federal Housing Administration, stepped into the breach, and their share of the multifamily market temporarily expanded to ensure stability in the market and prevent the type of meltdown that occurred in the single-family sector. Without the availability of government-backed credit, the construction of affordable rental apartments would have collapsed during that time, causing rents to rise even more than they have. What's more, during the crisis, the default rates of government-sponsored enterprise, or GSE, supported loans were less than one-eleventh of the default rates of loans issued by purely private lenders.

But even under normal conditions, private sources of multifamily rental financing cannot provide enough credit in rural areas and smaller cities or produce the long-term, fixed-rate mortgages that attract diverse investors and produce affordable properties.

Policy makers should ensure continued support for affordable rental properties

Continued government involvement in rental financing is essential. The government should:

- Continue to guarantee multifamily securities, sharing risk with the private sector as it does now
- Set a guarantee fee high enough to fund sufficient reserves to limit taxpayer exposure
- Focus on supporting affordable rental housing in urban, suburban, and rural areas alike