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MORTGAGE FINANCING

Fannie Mae and Freddie Mac's Multifamily Housing Activities Have Increased

Why GAO Did This Study

Congress established the enterprises to provide stability in the secondary market for residential mortgages and serve the mortgage credit needs of targeted groups. But in September 2008, FHFA placed the enterprises in conservatorship out of concern that their deteriorating financial condition would destabilize the financial system. As Congress and the Executive Branch have explored options for restructuring the enterprises, most of the discussion has focused on the single-family market. But the enterprises also play a large role in providing financing for multifamily properties (those with five or more units).

GAO was asked to describe (1) how the enterprises' multifamily loan activities have changed, (2) the enterprises' role in the multifamily financing marketplace and how they met affordable housing goals, and (3) how the enterprises' multifamily delinquency rates compare with those of other mortgage capital sources and how they have managed their credit risk.

To address these objectives, GAO analyzed (1) loan-level data from 1994 (the earliest period for which loan-level data were available) through 2011 from the enterprises and (2) data from the Mortgage Bankers Association; interviewed key multifamily housing stakeholders; and reviewed FHFA examination reports.

FHFA, Fannie Mae, and Freddie Mac provided technical comments, which GAO incorporated where appropriate.

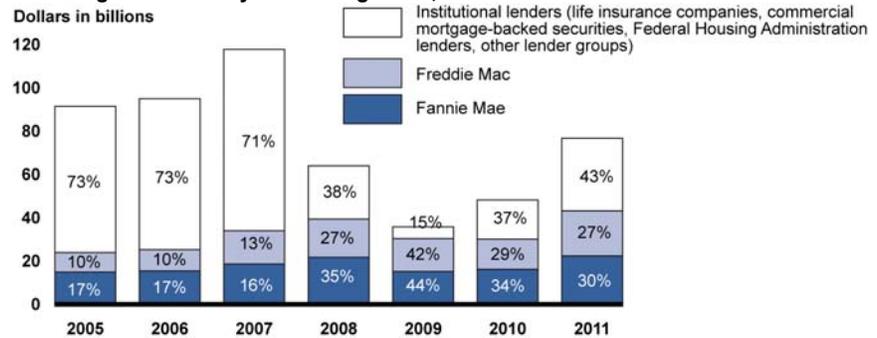View GAO-12-849. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

What GAO Found

From 1994 through 2011, the multifamily loan activities of Fannie Mae and Freddie Mac (the enterprises) generally increased. In this period, Fannie Mae held a lower percentage of multifamily loans in its portfolio than Freddie Mac. While the enterprises' multifamily business operations generally were profitable, both enterprises reported losses in 2008 and 2009.

In recent years, Fannie Mae and Freddie Mac played a larger role in the multifamily marketplace, and their multifamily activities contributed considerably to meeting their affordable housing goals (set by their regulator for the purchase of mortgages that serve targeted groups or areas). Before 2008, the enterprises financed about 30 percent of multifamily loans (see figure). Their share increased to 86 percent in 2009, but decreased to 57 percent in 2011 as other participants reentered the market. GAO's analysis showed that multifamily activities greatly contributed to the enterprises' ability to meet affordable housing goals. For example, the enterprises' multifamily activities constituted 4.5 percent of their total business in 2008, but about a third of the units used to meet the goal of serving low- and moderate-income persons were multifamily units.

Financing of Multifamily Loans Originated, 2005-2011

Source: GAO analysis of Mortgage Bankers Association data.

Note: Percentages may not add to 100 because of rounding.

The enterprises have purchased multifamily loans that generally performed as well as or better than those of other market participants, but the Federal Housing Finance Agency (FHFA) has identified deficiencies in their credit risk management. In 2005-2008, the enterprises' serious delinquency rates (less than 1 percent) were somewhat lower than the rates on multifamily loans made by commercial banks and much lower than rates for multifamily loans funded by commercial mortgage-backed securities. FHFA, through its examination and oversight of the enterprises, identified a number of credit risk deficiencies over the past few years. For example, FHFA found deficiencies in Fannie Mae's delegated underwriting and servicing program, risk-management practices, and information systems; and Freddie Mac's management of its lower-performing assets. Both enterprises have been taking steps to address these deficiencies.

_____ **United States Government Accountability Office**