

Ginnie Mae Construction Loan Securities Purchase Program

MBA RECOMMENDS

Congress should expand the authority of the Federal Reserve through the Economic Stimulus Package to encourage the purchase of Ginnie Mae multifamily construction loans (CL) securities, just as the Federal Reserve now purchases Fannie Mae, Freddie Mac and Ginnie Mae securities backed by single-family mortgages.

Jobs Created: 34,000 • Affordable Housing Units Created: 29,000

BACKGROUND

Generally, the rate on Ginnie Mae CL securities has been the same as on PL securities because both are backed by the full faith and credit of the U.S. government. Both have been very liquid investments with a ready market of investors. In today's market, however, there are few investors willing to buy and hold the CL securities until they convert to a permanent loan security. Many of the traditional Ginnie Mae investors are experiencing balance sheet issues and holding CLs until they can be placed in a Real Estate Mortgage Investment Conduit (REMIC) as permanent loans, creates additional balance sheet risk. This additional risk has created the widened spreads. The additional 100 basis points spread makes a new construction/sub rehab proposal that is feasible at a six percent note rate infeasible at a seven percent note rate. Because of increases in construction costs, increased project operating expenses, and rent compression in many markets, many projects are simply not economically viable at that higher rate.

Research by professional market analysts has been conducted on each of these developments as part of the FHA application process. There is a need for each of these properties either because the existing vacant rental housing is too expensive for the families needing housing that would be served by this new development, the proposed project is meeting a special need (e.g., seniors housing, assisted living

or nursing home facilities, etc), the development is near transit and better suited to the needs of working families, or the project is substantial rehabilitation of existing housing in need of significant repairs or updating.

ECONOMIC STIMULUS PROPOSAL

In 2008, the interest rate spreads for Ginnie Mae multifamily CL securities widened by 100 basis points, making them significantly higher than on Ginnie Mae PL securities. The impact is a higher mortgage note rate, making most FHA-insured new construction and substantial rehabilitation developments infeasible. As a result, much-needed workforce housing is not being delivered or preserved in many markets; capital is not flowing into local economies; and construction jobs are not being created.

The Federal Reserve is purchasing Fannie Mae, Freddie Mac and Ginnie Mae securities backed by single-family loans. As part of the economic stimulus package, this program should be expanded to include the purchase of Ginnie Mae CL securities at the same rate as the private market is paying for Ginnie Mae PL securities. The ready market for PL securities would set a benchmark for the pricing and would allow a private market for CL securities to reemerge once investors' balance sheets allow their reentry into this credit risk-free market. Once the

construction/rehabilitation is completed on these projects (usually 18 to 24 months), the Fed could sell the PL securities and potentially return a profit. It is estimated that approximately \$3.2 billion would be needed during Fiscal Year 2009.

BENEFITS

In a recent survey of mortgage lenders, the 26 lenders responding (representing virtually all of the active FHA multifamily lenders) reported that there are currently more than 200 applications in the pipeline for FHA insurance totaling almost \$3.2 billion in mortgage amount (representing more than 29,000 units) that could go into construction during the next six months. This

would provide much-needed affordable rental housing and healthcare facilities — both preservation of current properties as well as new construction in certain markets. The program would also provide strong economic stimulus in markets across the country as almost 34,000 jobs would be generated quickly and efficiently. (The National Association of Home Builders estimates that the development of a typical 100-unit multifamily apartment complex generates 116 jobs in the construction trades and in companies that supply goods and services integral to the development of this housing.)



1331 L Street, NW
Washington, DC 20005
www.mortgagebankers.org