

Thank you for opportunity to comment on the initial implementation by Fannie Mae and Freddie Mac, or the “Enterprises,” under the Duty-to-Serve rule issued by the Federal Housing Finance Agency in 2016.

I speak today as the co-founder and strategic advisor to the RAD Collaborative. We function as a policy and practice forum for Public Housing Authorities (PHAs), other owners of RAD-eligible properties, and their financing, development and management partners who are implementing RAD conversions of assistance. We are a non-membership, open forum with over 1700 participants around the country.

Hopefully by now, most know that RAD simply stands for what it purports to be—or the Rental Assistance Demonstration—which was created in the Obama Administration under the leadership of then-HUD-Secretary, Shaun Donovan.

I was honored to serve as Secretary Donovan’s senior advisor charged with helping devise and initially launch RAD. In that capacity, I was also pleased to work with FHFA’s senior team at the time as it assessed including RAD as an eligible activity under the Duty-to-Serve mandate.

In many ways, RAD is the ideal eligible activity to include under Duty-to-Serve. There may well be no more under-served market than public housing—along with a small set of other, older HUD-assisted rental housing programs that no longer receive sufficient public subsidies to carry out their mission.

Although neglected, these programs provide over 1.3 million affordable housing units for some of our most needy citizens—the elderly, the disabled, the working poor, the near and formerly homeless—all of whom are without other viable housing options.

Given its focus and reach, the RAD inventory squares up well with the charge to the Enterprises to facilitate a secondary market for both the “affordable housing preservation” and the “rural housing” dimensions of Duty-to-Serve. In many rural locations, the only community-based owner and manager of affordable housing in a town, or county, or corner of a state may be one of the nation’s 3100 housing authorities.

RAD is doing what it was intended to do, and more. Its charge is to provide a stable stream of renewable Section 8 project-based operating subsidies to leverage needed debt and equity—to help make up for the capital that Congress has determined it no longer can sufficiently provide for HUD-assisted housing.

That capital is flowing. Consider just the first 100,000 or so public housing units that have undergone RAD conversions of assistance and closed—which is just under a quarter of the demonstration’s currently-approved cap:

- They have already generated \$12.6 billion in total debt and equity capital, or nearly \$122,000 per unit, for immediate construction needs, replacement reserves, temporary relocation and other development costs.
- Construction activity ranges from immediate repairs, and mod and sub rehab to new-construction replacement public housing.

- This is being undertaken by small, medium and large-size housing authorities in big and small markets, in rural and urban locations.
- Extrapolating the amount of capital generated so far to the balance of the 455,000 public housing units authorized under RAD, it's likely that another \$40 billion or so in capital will be needed. As RAD's cap is hopefully expanded, the capital needs will increase proportionately.

While capital is flowing to RAD projects, further consider where it's coming from, and in what increments.

The financing structure of RAD projects lines up pretty much with other affordable transactions:

- The ability to support conventional debt is modest—or less than one-fifth of total capital—effecting considerable need for equity (about 40%) and the balance to be made up in subordinate, gap funding.
- Of the roughly 20% conventional debt increment, non-FHA mortgage lending comprises 11.2% of that, and FHA-insured loans, 7.1%.
- Not surprisingly, given constrained net-operating income in low-income housing transactions, permanent loan sizes in any one deal are fairly small: non-FHA loans average about \$4.8 million, and FHA-insured loans \$7 million.

All to say, the products most needed to support RAD-converted projects so far, and increasingly ahead, are not the Enterprise's facilities oriented to large, standardized tax-exempt loans that can be readily securitized and sold to investors.

To be sure, the Enterprise's bread-and-butter bond products, such as the Forward TEL or M.TEB Fixed Rate, have worked well in meeting substantial capital needs in San Francisco, El Paso, Chicago, New York and some other generally well-served markets.

These facilities work best for high-capacity PHAs and development teams undertaking multi-thousand unit portfolios and large multi-phase projects. They tend to meet uniform term sheet requirements and can absorb substantial transaction costs.

But these products don't provide the bread-and-butter capital most needed by tens of hundreds of small-to-medium sized PHAs, and even fairly large PHAs with modest staff capacities, who operate in less-well served markets between San Francisco and New York.

Rather, their prototypical RAD projects tend to be a single 70-unit senior high-rise; or a three-phase, 240-unit redevelopment of barracks-style family housing; or a large (for them) 650-unit portfolio of family and senior rehab projects over multiple years.

These type of projects require substantial construction coverage, but limited permanent debt. Acquisition financing is sometimes needed as well. Ideally, either or both the construction and acquisition financing would be partially convertible to a very low LTV permanent mortgage. Short-term bridge and predevelopment loans are also needed.

These projects also require substantial amounts of subordinated gap financing with highly-flexible interest rates and payment terms to augment the limited amount of primary mortgage debt that can be sustained.

It's unlikely that many of these loans will be sufficiently standardized to be easily packaged, securitized and sold. While demand for the varied set of them would potentially be very high, their relatively small increments will not afford underwriting or administrative efficiencies. These are labor-intensive loans with likely thin margins for both lender partners and the Enterprises.

At the same time, both Fannie and Freddie offer a suite of multifamily products under which such loans might possibly be made, if not exactly a neat fit.

If so, it's fair to say that most PHAs and their development partners are not sufficiently familiar with these offerings to turn to the Enterprises and their affiliated lenders as first-stop options when seeking such capital.

Rather, they tend to hear more about—and become overwhelmed by—the complexities of a Cash Back Bond/Forward Tax-Exempt Loan or MBS Tax-Exempt Bond Collateral, and quickly conclude that Fannie and Freddie have little to offer them.

Perhaps this is something that the RAD Collaborative and our partners, including Council of Large Public Housing Authorities, might help address.

Or if the current suite of products aren't the best fit, but the Enterprises are interested in expanding them to better meet the capital needs described above, the Collaborative, our partners and our network of practitioners stand ready to help with this task as well.

In whatever manner, given our experience with hundreds of practitioners and a growing body of RAD conversions, we are confident that we can help the Enterprise's bolster their duty-to-serve charges to lead, innovate and effectively deliver capital to those who need it most, where it is most needed.

Thank you.

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