On November 6, 2018, The Federal Housing Finance Agency (FHFA) announced that the 2019 multifamily lending caps for Fannie Mae and Freddie Mac will be $35 billion for each agency (unchanged from this year’s caps). The 2019 lending caps are based on FHFA’s projections of the overall size of next year’s originations market, which it expects will be relatively flat compared to the market in 2018. As in prior years, FHFA will review its estimates on a quarterly basis and will adjust the caps upward if they believe the market is larger than originally estimated.

Additionally, FHFA is making the following changes to affordable housing and underserved market segments, plus green efficiency qualifications, which are excluded from the 2019 lending caps:

- **Loans to finance energy or water efficiency improvements**: To qualify for exclusion from the cap FHFA will require multifamily loans that finance energy or water efficiency improvements through Fannie Mae’s Green Rewards and Freddie Mac’s Green Up/Green Up Plus to provide a 30 percent reduction in whole property energy and water consumption **AND** a minimum of 15 percent savings must be in energy (changed from 2018’s requirement of 25 percent energy **OR** water reduction). There is also a data collection requirement, which requires engagement of a third-party data collection firm prior to closing.

- **Loans on affordable units in cost-burdened renter markets**: To address the critical shortages of affordable rental housing in specific markets, FHFA has developed a data-driven approach it will follow to designate markets in which units affordable to cost-burdened renters at certain area median income levels will be excluded from the multifamily cap on a pro-rata basis.

Although there is some uncertainty with respect to how the FHFA will designate markets for “Loans on Affordable units in cost-burdened renter markets”, we feel this is a positive outcome for our industry.

Prior to this announcement, there was speculation that the volume caps would be meaningfully reduced, and the bar dramatically raised for properties to qualify for Green benefits. With no change in the volume caps and modest increases to the energy and water savings requirements, the Agencies’ capacity to provide debt capital in 2019 is much more positive than some anticipated. Further, to prevent disruption in the market, if FHFA determines that the actual size of the 2019 market is smaller than was initially projected, it will not reduce the caps. This is more positive news and prevents potential mid-year disruptions of moving the goal post!

We will keep you posted as we receive more information on how the affordability component of the exclusions to the volume cap will impact the Agencies’ posture in 2019.

- Mike McRoberts, Managing Director

Contact your local expert today to learn more, and read more about our Agency and other programs at pgimref.com