

Fannie Mae's Blackstone Deal Provokes Blowback

By: Jann Swanson | Thu, Feb 23 2017, 4:15 PM

It seemed just an aside in the National Association of Realtors press release regarding January existing home sales. NAR President William E. Brown, took a shot at the GSE's saying first, "Supply and demand imbalances continue to be burdensome in many markets, and now Fannie Mae is supporting a Wall Street firm's investment in single-family rentals." Then widening his comment to include Freddie Mac, said, "Instead, the GSEs should **lower overly burdensome fees** and help qualified borrowers become homeowners."

It turns out there is a little **more to the story**.

Brown was referring to Fannie Mae's recent decision to back a \$1 billion mortgage given to Invitation Homes. The company, a subsidiary of private equity firm Blackstone, purchased an estimated 48,000 foreclosed single family homes subsequent to the housing crash. They will serve as collateral for the Wells Fargo loan. Fannie Mae termed the issuance of the guaranty a "pilot program."

The **GSE role in the rental market** has historically focused on multi-family properties or to a lesser extent, on single-family properties owned by smaller investors, defined as those owning ten or fewer homes. Fannie Mae has typically limited financing to small investors at 10 properties and Freddie Mac to six. Freddie Mac has indicated it might consider a program similar to Fannie's pilot.

The Urban Institute **strongly endorsed** Fannie Mae's venture into the institutional single-family market, but there has been significant blowback from other quarters. That brings us back to Brown's comment in the existing home sales report. It wasn't a throw-away line.

On January 31 Brown wrote a letter on behalf of NAR to Mel Watt, director of the Federal Housing Finance Agency, regulator and conservator of the GSEs. The letter said in part, "Rather than focusing on allowing well-qualified Americans to build wealth through affordable mortgage options, Fannie Mae is actively financing large institutions to compete with them. These investors **do not expand the affordable housing stock**. Rather, in this limited market they drive up the price of rents and remove affordable inventory from the hands of American homeowners."

Brown went on to tie the guaranty to an **ongoing NAR request** that borrowing costs charged by the GSEs be lowered to benefit homebuyers. "Charging individual borrowers substantially higher fees than the actual risk they present, while at the same time subsidizing investors able to raise billions of dollars on their own, undermines the GSEs' public mission," he wrote. "Our nation needs the GSEs to bolster homeownership opportunities for millions of responsible, middleclass American families, not funding special interest deals with Wall Street financial firms."

NAR isn't the only the deal's only critic. **The National Community Stabilization Trust (NCST)**, a non-profit organization with a mission of restoring vacant and abandoned properties into usable condition and protecting neighborhoods from blight, said right after the guaranty was disclosed that it would lower borrowing costs for Invitation Homes, "allowing the company to add to the 50,000 single-family rentals it already owns, "many acquired at rock-bottom prices during the housing collapse."

NCST president Robert Grossinger said, "I am **perplexed** to see Fannie Mae place a taxpayer guarantee behind the same private interests whose risky practices led to the millions of foreclosed homes they are now buying up. These investors so far have had no trouble financing the purchase of tens of thousands of homes without government support. But if Fannie Mae determines that a taxpayer subsidy of the private sector is necessary, at the very least the arrangement with Invitation Homes should contain provisions that strengthen protections for tenants living in these homes, support affordability, and prohibit the predatory rent-to-own and installment contract arrangements that are becoming increasingly common in the single-family rental market."

Announcement of the guaranty was first disclosed by Invitation Homes in a SEC filing announcing its public offering for securitization of the Wells Fargo loan. A spokesman for the firm declined comment, citing the quiet period required before public offerings.

An FHFA spokesman told NCST it would monitor the Fannie deal **before approving more** like it. "Given the growth in the single-family rental market, FHFA considered this transaction one that would enable us to explore alternative options to serve those families who choose to live in single-family rental properties." Fannie Mae will be receiving regular reports from Invitation Homes that will inform FHFA about existing challenges as well as strategies regarding single-family rentals. Based on this and other information, FHFA will then decide if this type of financing should continue and, if so, under what conditions."

Julia Gordon, Executive Vice President of NCST, added, "We call on Fannie Mae to extend similar financing to mission-driven organizations who will ensure that single family rentals are decent, safe, and affordable, and who will retain wealth in those neighborhoods rather than funneling it straight from Main Street to Wall Street."

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