



COVID-19 & IMPACT ON
MULTIFAMILY FINANCING
Update – June 18, 2020



PEAK FINANCING

About us

- Decades of multifamily lending experience
- \$5 billion+ under our belt
- 1,000s of closed transactions
- Access to 100s of lenders
 - Fannie Mae, Freddie Mac, HUD
 - Bridge lenders
 - Life Insurance Companies
 - Banks
 - Debt Funds

Fannie Mae - underwriting tightening due to COVID-19

(Effective as of June 22, 2020)

	Fannie Mae – Conventional & Small Loans excluding senior and student housing
Tier 2 loans (up to 80% LTV, min. 1.25x DSCR)	<ul style="list-style-type: none">▪ 12 months of P&I reserve, <u>18 months for loans under \$6 million still required</u>▪ Escrow for real estate taxes, insurance, replacement reserves NO LONGER required (but, as before COVID-19, lender/Fannie may require reserves as deemed appropriate for a transaction) <p>NOTE: P&I reserve may be lowered to 6-9 months on a cases by case basis</p>
Tier 3 loans (up to 65% LTV, min. 1.35x DSCR)	<ul style="list-style-type: none">▪ 6 months of P&I reserve▪ Loans with 3 years+ I/O: Reserve calculated on I/O basis▪ Escrow for real estate taxes, insurance, replacement reserves NO LONGER required (but, as before COVID-19, lender/Fannie may require reserves as deemed appropriate for a transaction) <p>NOTE: P&I reserve may be lowered on a cases by case basis</p>
Tier 4 loans (up to 55% LTV, min 1.55x DSCR)	<ul style="list-style-type: none">▪ Exempt from reserves/escrow requirements
Release of Reserves	<ul style="list-style-type: none">▪ 6 months PLUS 1 consecutive quarters at the minimum DSCR/LTV for the Tier with a minimum of 9 months
Loan Assumptions	No reserve requirement <u>unless</u> supplemental loan is added = above rules apply

Freddie Mac - underwriting tightening due to COVID-19

(Status as of June 18, 2020)

	Freddie Mac
Freddie Conventional	<ul style="list-style-type: none">▪ DSCR below 1.40x: 9 months of P&I▪ DSCR above 1.40x: 6 months of P&I▪ DSCR above 1.45x & 60% LTV or less: no reserve requirement▪ Student Housing: 12-18 months P&I▪ Senior Housing: 12 months P&I
Freddie SBL	<ul style="list-style-type: none">▪ 12 months of P&I reserve▪ >50 units will require replacement reserve escrow
Release of Reserves	<ul style="list-style-type: none">▪ At least 80% physical occupancy (3 consecutive months),▪ 3-months average collections must at least support the DSCR required at loan closing▪ No deferred due diligence▪ Federal/state/local shelter-in-place & emergency declarations have been lifted for 90 days <p>If above conditions are not met after 12 months, funds are placed into replacement reserves</p>
Loan Assumptions	No reserve requirements

Forbearance comparison Fannie Mae vs Freddie Mac

(Effective as of June 22, 2020)

	Fannie Mae	Freddie Mac
Forbearance Period	90 days	90 days
Repayment Period	Max. 12 months	Max. 12 months
Interest/fees	None	None
“Hardship requirement”?	Yes	Yes
Forbearance agreement	Yes, non-negotiable	Yes, non-negotiable
Legal Fees	\$750 + reasonable lender legal	TBD
Evictions	Must follow CARES Act rules	Must follow CARES Act rules
Loans under forbearance as of mid-June (Fannie Mae), end of May 2020 (Freddie Mac)	<p>Approx. 270 loans – 1% of total outstanding loans</p> <p>Approx. \$3.9B – 1% of total outstanding loan balance</p>	<p>Approx. 1,000 loans/4.3% of outstanding loans</p> <p>\$6.4B/2.1% of outstanding loan balance</p> <p>Freddie SBL: 75% of forborne loans but 30% of forborne loan balances</p> <p>11.4% of forborne loans: senior housing</p> <p>8.8% of forborne loans: student housing</p> <p>Top five states: NY, TX, MD, FL, CA</p>

What to do with loans under application?

- Expect a reduction in loan proceeds due to a deterioration in collections, impacting both DSCR/debt yield as well as valuation.
- Verify with your mortgage broker/lender the new reserve requirement.
- Raise significantly more equity to cover potential shortfall in loan proceeds, the increased reserves for P&I, insurance, taxes, replacement reserves, well as to account for a higher numbers of investors pulling out of initial commitment.
- Work with seller to extend closing date. Depending on the location and evolution of COVID-19, the loan underwriting process may take an additional 30-60 days to close.
- For non-agency loans, investigate alternatives now! Lenders that rely on others to fund the loan as well as future securitization may not be able or willing to close.

What to do with deals with a signed LOI/PSA?

- Pick the “right horse”! – More important than ever before: Use a commercial mortgage broker who has gone through major downturns and who can guide you to the lenders that can close and steer you away from lenders to avoid.
- Verify with your mortgage broker/lender the new reserve requirements for P&I, insurance and taxes, as well as new underwriting restrictions (lower LTV, higher DSCR, etc.) – Still fluid!
- Underwrite the deal based on lower collections in May/June/July and potential impact of \$600/week of Federal bonus employment checks ending on July 31, 2020.
- Negotiate with seller to extend closing date as needed. Loans may take an additional 30-60 days to close (location specific).
- Add contingencies for financing, minimum physical occupancy, as well as minimum collections.

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