TIMOTHY R. LEONHARD: *THE DEBT CORNER*

Sharpen Your Pencils

Borrowing Rates Continue to Rise

It's definitely harder to get new transactions to pencil out on the debt side.

Multifamily mortgage interest rates continued rising in the past quarter and are now well above the historical lows we enjoyed for several years. The first quarter saw increases in both investor spreads and all-in borrowing rates. The second quarter was no different, with investor spreads and all-in borrowing rates climbing even further, and rapidly.

Net borrowing rates are up approximately 75 basis points since April, and the average rate on a standard full-leverage 10-year term loan is now above 5% for the first time in several years.

The benchmark 10-year Treasury rate has spiked by more than 75 basis points since the beginning of May, causing a similar increase in net borrowing rates for newly originated mortgages backed by Fannie Mae, Freddie Mac, and the U.S. Department of Housing and Urban Development's Federal Housing Administration (FHA).

The recent spike in rates occurred so quickly that the correlating increase in capitalization rates has not yet been published. That said, virtually all multifamily housing property acquisitions that we are seeing today – either under letter of intent or in the early stages of a purchase and sale contract – are in the process of price renegotiation. When the dust settles, we expect capitalization rates will be more than 100 basis points higher than they were at the beginning of 2013.

Timothy R. Leonhard

Fortunately, investor interest in multifamily assets remains very high, albeit at prices adjusted to achieve desired equity returns.

The primary debt options for affordable multifamily properties, including those funded with low-income housing tax credits, continue to be programs offered by Fannie Mae, Freddie Mac, and FHA. Banks remain a viable source of construction financing and in some cases permanent loans. There have been no new entrants of consequence into the affordable housing debt markets thus far in 2013.

GSE Portfolio Caps and HUD Commitment Authority

Earlier this year, Congress imposed 2013 new multifamily loan origination volume caps on both Fannie Mae

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Current FHA, Fannie Mae, Freddie Mac Financing Options

FHA/HUD – Taxable New Construction or Sub Rehab Loan Parameters [Section 221(d)(4)]

DSCR: 1.11 to 1.20	**LTC:** 83% to 90%	**Rate:** 4.80% (plus MIP)	**Loan term:** Up to 40 years	**Amortization:** Up to 40 years

FHA/HUD – Taxable Acquisition or Refinancing Loan Sizing Parameters [Section 223(a)(7), 223(f)]

DSCR: 1.15 to 1.20	**LTV:** Up to 85%	**Rate:** 3.80% (plus MIP)	**Loan term:** Up to 35 years	**Amortization:** Up to 35 years

Fannie Mae/Freddie Mac Taxable Acquisition or Refinancing Loan Parameters (without new LIHTC)

DSCR: 1.20 to 1.25	**LTV:** 75% to 80%	**Rate:** 3.85% to 5.95%	**Loan term:** 5 to 30 years	**Amortization:** 30 years

Fannie Mae/Freddie Mac Taxable Acquisition or Refinancing Loan Parameters (with new LIHTC)

DSCR: 1.15	**LTV:** 90%	**Rate:** 5.45% to 6.25%	**Loan term:** 15 to 30 years	**Amortization:** Up to 35 years

Fannie Mae/Freddie Mac Taxable Adjustable Rate Acquisition or Refinancing Loan Parameters (without new LIHTC)

DSCR: 1.20 to 1.25	**LTV:** 75% to 80%	**Rate:** 2.75% to 3.75% over 1M LIBOR	**Loan term:** 5 to 10 years	**Amortization:** 30 years

* Note: All rates quotes above assume a full leverage transaction. Transactions with LTV of 70% or less can generate interest rate savings of between 15 and 40 basis points.

Source: Timothy R. Leonhard is the Managing Director of Affordable Housing at Oak Grove Capital, a Fannie Mae, Freddie Mac, and FHA multifamily lender based in Dallas, Texas. Figures as of July 17, 2013. Leonhard may be reached at 817-310-5800, tleonhard@oakgrovecap.com

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and Freddie Mac that were 10% lower than their 2012 volume levels. During the second quarter of this year, it appeared that the two government-sponsored enterprises (GSEs) were on pace to far exceed these 2013 origination caps on an annualized basis. As a result, credit enhancement pricing waivers have become very hard to obtain from either agency as they try to temper their loan production and increase profitability. It is unclear how the significant spike in rates will affect the GSEs' pipeline and production numbers; they could possibly hit their loan production limits before year end. Therefore, borrowers should to stay in close contact throughout the year with their Fannie Mae or Freddie Mac lender to see where they are regarding their 2013 origination caps. If the GSEs approach their production caps they may ration commitment authority in favor of affordable housing and other targeted housing initiatives over conventional projects.

FHA is likely to run out of multifamily commitment authority before the end of its current fiscal year (September 30, 2013). HUD will continue to process loans on an as-received basis, and has announced that FHA commitment authority will be rationed if the need arises in favor of affordable housing and other targeted housing initiatives. HUD feels it will have enough commitment authority to avert any delays in affordable housing financings. The increase in interest rates should ease this concern as well.

Freddie Mac's VLI Initiative

Freddie Mac has announced an aggressive goal to finance more than 50,000 very low-income (VLI) housing units by year end 2013. VLI is defined as a rental unit with the tenant-paid portion of rent at or below 50% of the area median income calculated rent. Eligible financings are standard acquisitions, acquisition/rehabs, or refinancing. Freddie has been very creative in structuring several products for this space to land these financings. If you own or plan to develop a property with least 50 VLI units, contact your Freddie Mac lender before year end to discuss your options here.

Sequestration and HUD

HUD settled on 10 furlough days for each employee in the fiscal year ending September 30 to meet budget sequestration targets. Approximately 5 of these furlough days remain. Most HUD offices are experiencing commensurate delays in issuing FHA commitments. That said, HUD employees to their credit have remained upbeat and are conducting business as usual as they deal with difficult circumstances.

Developers and owners seeking or contemplating FHA financing should stay in close contact with their FHA lender and local HUD field office to stay abreast of unfolding developments. TCA

People in the News

Gretchen Corbin has been appointed as the new Commissioner of the Georgia Department of Community Affairs by Gov. Nathan Deal. She was previously Deputy Commissioner for Global Commerce at the state Department of Economic Development. Corbin succeeds Mike Beatty, who left DCA to become President and CEO of Georgia's Great Promise Partnership, Inc., a nonprofit.

The Shelter Group, a national real estate development and property management company based in Baltimore, has promoted **Alan Siegfried** to Vice President of Project Management for Shelter Development, LLC, and **Andrea Griesmar** to Senior Vice President of Human Resources for Shelter Properties and Brightview Senior Living.

Centerline Capital Group has announced two new hires in the firm's Affordable Housing Debt division: **James F. Boris III**, Director; and **Jon Killough**, Senior Vice President. Boris, based in Chicago, will expand the firm's FHA lending platform. He was previously Founder and Chief Executive Officer of Paradise Senior Communities, LLC. Killough, based in Birmingham, Ala., will source affordable housing debt opportunities with a focus on the Southeast region. Before joining Centerline, he was Vice President at Rockport Mortgage Corporation.

Sandra Seals has joined National Equity Fund, Inc., a syndicator of low-income housing tax credits, working on its acquisition team. Based in South Florida, she is part of NEF's East group focusing on affordable housing deals in Alabama, Florida, Georgia, and North and South Carolina. Seals was previously with Reliance Housing Foundation in Fort Lauderdale.

Greystone, a financial services and real estate firm, has added **Andrew Warren** as director of investments for the firm's affordable housing preservation division. He will spearhead the firm's efforts to raise low-income housing tax credit equity and also work to secure debt and financing through various partnerships. He was previously at Centerline Capital Group.

Kent Mehring has joined WNC, a syndicator of low-income housing tax credits, as Vice President, Asset Management. He was previously at Wentwood Capital Advisors. TCA