

Freddie Mac Announces Mezzanine Program for Multifamily Mortgages

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With financing in the commercial real estate sector severely constricted, property values still declining, and billions in multifamily mortgages on the verge of coming due, Freddie Mac is stepping up to the plate to ensure strapped apartment owners have an avenue to refinance their debt.

DSNews.com previously reported on Freddie's preliminary plans to implement a new lending program specifically targeted at multifamily mortgage refinancing back in early March. Last week, the GSE made it official, with an announcement of a financing arrangement where it will allow mezzanine debt on qualifying multifamily first mortgages it purchases.

The McLean, Virginia-based GSE explained that it is partnering with "experienced multifamily players" to help bridge the capital hole for borrowers who need to finance or refinance overleveraged multifamily properties whose value has declined. Freddie says the program is aimed at recapitalizing multifamily properties for borrowers in good standing and easing the painful process of deleveraging; it is not meant to increase leverage at the property level or fuel excessive risk taking by investors, the GSE said.

"The intent is to help the industry reduce the number of properties that may otherwise become defaults, timely workouts, or foreclosures if they don't get much-needed financing," said Mike May, SVP of multifamily at Freddie Mac. "We are working with mezzanine providers who are experienced multifamily owners, operators, or investors to help fill the capital gap due to reduced property valuation compared to existing financing."

Over the last few years, the apartment finance industry has undergone significant changes that have stifled capital for many owners. Tighter lending standards, declining property values, and fewer equity players have combined to put several apartments at risk of default at loan maturity.

Under the new program, Freddie Mac's multifamily lenders will originate a first mortgage with a loan-to-value ratio (LTV) of up to 75 percent, then work with a mezzanine lender to provide additional leverage, up to another 15 percent. This allows property owners to borrow up to 90 percent of a property's value.

Freddie Mac will then purchase eligible first mortgages from its lenders to either retain in its portfolio or securitize into its K Certificate multifamily mortgage backed securities (MBS).

The mezzanine portion of the financing is backed by the borrower's equity, not the property, so Freddie Mac explained that is not taking on additional risk with this arrangement.

The mezzanine providers are also able to bid on the b-piece of a Freddie Mac K Certificate if the first mortgages are securitized.

Since the launch of Freddie Mac's multifamily business in 1993, the GSE says it has provided more than \$228 billion in financing for approximately 57,000 multifamily properties.