

Boost Your Multifamily Market Share Through Correspondent Lending

What Every Bank Should Know About the
Multifamily Market and Correspondent Lending



ARBOR

PARTNER PROGRAM

Your Multifamily Client,
Millions in Agency Finance Possibilities

HOW CAN BANKS BETTER CAPITALIZE ON MULTIFAMILY?

THE BASICS OF CORRESPONDENT LENDING

Multifamily has remained the darling of the commercial real estate industry for the past six years. Demographic drivers and a shift towards a ‘rentership’ society have combined to create a perfect storm of apartment demand that is poised to deliver through 2030¹.

Banks looking for additional exposure to multifamily lending opportunities have already turned to agencies (Fannie Mae and Freddie Mac) to expand their offerings. But agency multifamily licenses have become hard to acquire. New advancements in technology, however, now allow banks to seamlessly extend their product offerings via a correspondent partnership with an approved agency lender. These turnkey alliances create new revenue streams with no operational costs, no risks of default, and no license upkeep requirement.

When a client would be best served by an agency multifamily loan that falls outside of your bank’s product

line, just refer the client to your correspondent partner. It’s that easy.

That’s because emerging online platforms — the specifics of which we’ll cover later in the paper — finally give multifamily borrowers the ability to complete a Fannie Mae or Freddie Mac loan online, anytime, anywhere. The right correspondent partner will showcase your firm’s branding throughout the entire agency loan application process. The correspondent partner/agency lender is then responsible for servicing the loan after it closes with an efficient e-signature execution.

This setup renders it unlikely that your customer will take their multifamily business (and existing accounts) to a competing depository institution. By aligning yourself with an approved agency lender, you are also providing your clients the ability to keep their future multifamily operational deposit accounts on your balance sheet.

Your bank essentially becomes a local nexus hub for multifamily property investors. This allows your institution

to maintain its most prized banking relationships, and helps establish new ones with high net worth depositors. In addition to retaining clients, the referring bank will also earn a fee from the referred loan. The approved agency lender handles the underwriting, processing and closing — all at no cost to you.

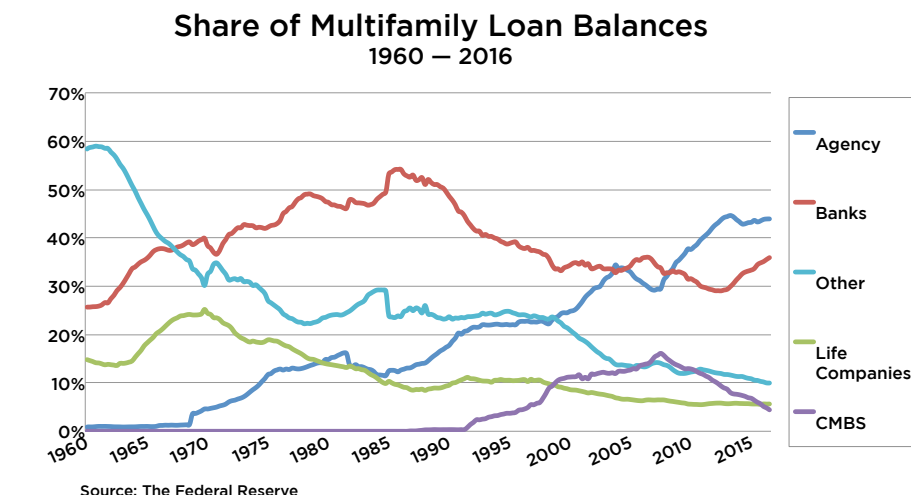
An alliance with an approved agency lender is not just a short-term way to boost cash flow and keep multifamily customers. It’s a strategy and business approach that will enhance your business for years to come. While some news articles will lure readers in by evoking fears of a multifamily bubble — sure, New York’s luxury condo market probably won’t support \$90 million penthouse units forever — the reality is that more people are living in apartments than ever before. Here’s a quick refresher on why the multifamily market will remain hot for the foreseeable future.

WHY IS MULTIFAMILY SO HOT?

The State of Multifamily Lending

Multifamily mortgage origination jumped from \$172 billion in 2013 to \$250 billion in 2015ⁱⁱ. With a combined origination volume of \$94 billion, the GSEs Fannie Mae and Freddie Mac are the leading lender group, followed by bank/thrift lending with an \$88 billion volume. Agencies continue to hold the greatest market share of multifamily debt with nearly 45% of the sector's total loan balance (see above right). With the total multifamily mortgage origination volume projected to hit \$272 billion in 2017, we can expect agency multifamily lending to increase accordingly.

Of course, every opportunity has its risks. Shortly after the Federal Reserve raised its benchmark rate in December 2015, federal banking regulators warned multifamily lendersⁱⁱⁱ to remain prudent in the face of low cap rates and high property valuations. In 2016, regulators say they will keep an eye on potential risks associated with commercial real estate lending^{iv}. Institutions with inadequate risk management



practices could soon be asked to raise additional capital to reduce risks associated with their commercial real estate exposure.

By forming a correspondent partnership with an approved agency lender, depository institutions can help to ensure the continued ability to provide for their customers' multifamily financing needs.

Dawn of a Rentership Society

Millennials. They are the largest tenant pool, and their numbers are staggering. At 83.1 million strong^v, Millennials will account for about three quarters of the nation's workforce^{vi} by 2025. Millennials seek out 24/7 core urban environments. They also tend to change jobs once every three years and will move to pursue their careers.

A mortgage just doesn't fit that lifestyle — not that Millennials can necessarily afford a down payment anyway! In addition to a diploma, the average Class of '15 graduate walked off stage with \$35,000 in student loan debt^{vii}.

Nonetheless, Millennials are spending more time in school, earning more advanced degrees. Consider that 3% of 32-year-olds had a master's degree in 1992. Fast forward to today, and 12% of 32-year-old women and 8% of 32-year-old men have a master's degree. This has pushed back marriage. In 1990, 57% of 32-year-olds were married. Today, that number has fallen to 40%^{viii}. So Millennials — an age cohort that would traditionally be forming households — are left renting, often resorting to roommates as a hedge against

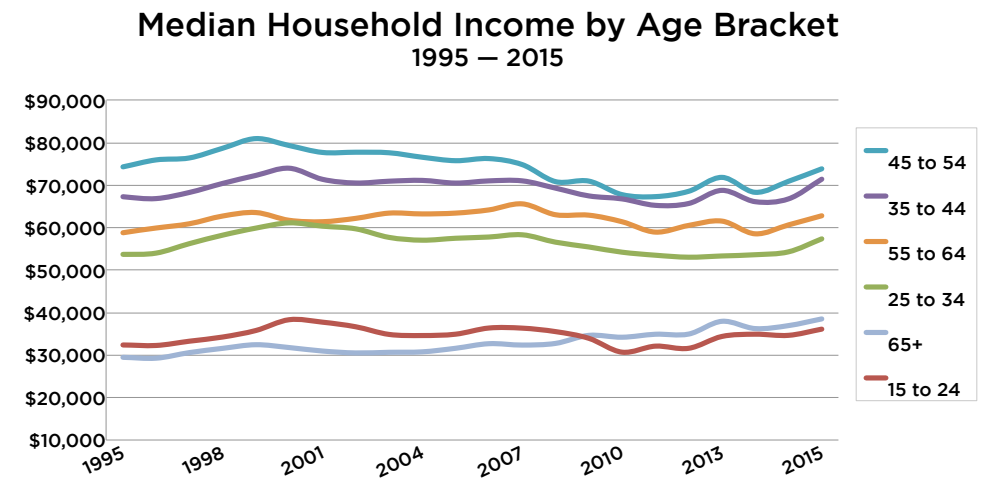
rising rents. But let's not be too harsh on them. Today's economic environment is very different from what their parents experienced in the 1980s and 1990s.

Affordability Crunch

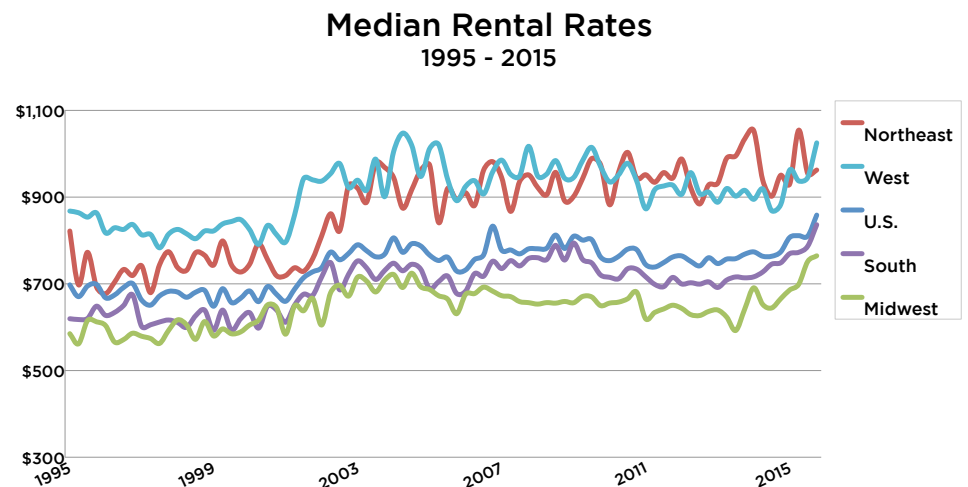
While the job market has improved, wages for all age cohorts have remained stagnant since the mid-1990s (top right). Rents have only increased, with a marked acceleration of growth in recent years (right).

The number of “rent burdened” apartment dwellers (those who spend at least 30% of household income on rent) has grown as a result. In 2009, 50.1% of renters qualified as rent burdened^{ix}. By 2014, the number was 52.3%. Even if wage growth suddenly grew to match rent growth today, demographic trends would still raise the number of “severely rent-burdened” households (those paying at least 50% of household income towards rent) by 11%, from an estimated 11.8 million in 2015 to 13.1 million in 2025.

If you think all those job sites in your city will deliver enough supply to alleviate skyrocketing rents, consider that only 2.2 million units were brought on line from 2005 to the end of 2014. During that same timeframe, apartment demand



Source: U.S. Census Bureau (Adjusted for inflation to 2015 dollars)



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surged by 7.9 million renters.

Combine these factors together and it's no wonder that the homeownership rate is at its lowest point since 1967 (see page 5). Meanwhile, apartment occupancy continues to climb.

It might come as a surprise to learn that 80% of lower-income renters live in small apartment

properties sized from 5 to 50 units^x. With a renewed national focus on affordability, maintaining liquidity in the small multifamily market has become a priority. That's why there has been an increased focus on agency lending within the small balance multifamily arena since 2007. While banks have helped provide capital to smaller multifamily assets in secondary and

tertiary markets, qualified borrowers are not always able to consistently secure apartment financing on a national basis. That's where an alliance with a licensed agency lender comes into play.

6 MUST HAVES FOR ANY CORRESPONDENT PARTNERSHIP

If you think a correspondent partnership with an approved agency lender might be a good fit for your bank, here are a few considerations to keep in mind when vetting a firm.

1. Product Catalog

Partnering with an agency lender gives you access to every agency product, including seniors housing, affordable housing, mixed-use, and student housing. If you are going to start a correspondent relationship, look for an agency lender who can also offer a variety of non-agency loan products like bridge, mezzanine and preferred equity. By selecting a lender who has the capability of offering bridge financing in conjunction with permanent agency financing, you become a one-stop shop for the full spectrum of multifamily borrowers.

2. Client Confidentiality

When looking for a partner, make sure that the firm is transparent throughout the entire loan process. Your team should be given the proper credentials to log in to the loan portal and track the status of your client's loan application and processing activity.

A good partner will never actively solicit your clientele. Make sure to ask what the agency lender would do if one of your clients decided to solicit them directly. Say for example, that one of your clients has closed a loan through your new correspondent partnership. On their next deal, the customer could try and call the agency lender directly. A transparent lender would inform you if this

were to happen, and there would already be procedures in place to handle such a situation.

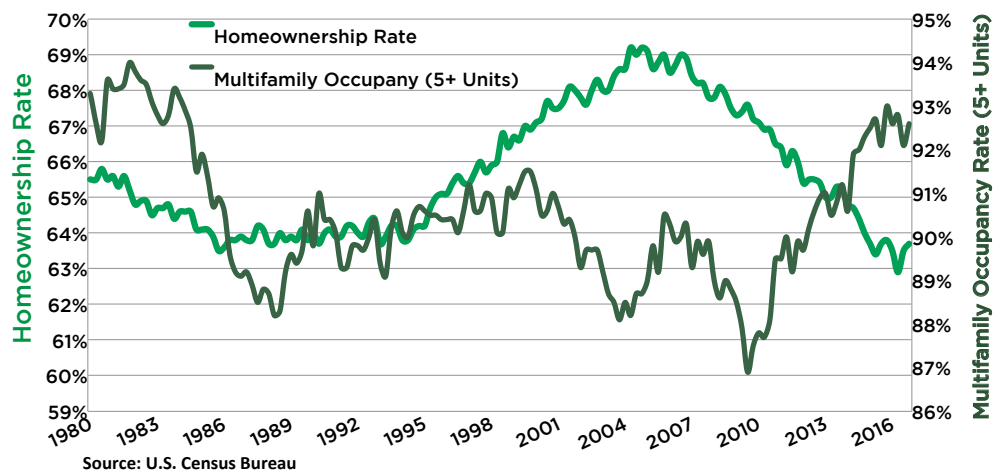
3. Branding

Your marketing team has worked hard to create a brand that resonates with your customers. A direct agency lender should use the loan portal to build off those marketing efforts. Make sure your correspondent partner will prominently display your branding on their loan portal. At first glance, your clients might not even realize they have left your website.

4. Training

Correspondent partners should offer training for your staff, who might not be familiar with agency loan products. Arbor, for instance, will present its correspondent

Homeownership vs. Multifamily Occupancy
1980 - 2016



partner with a two-day, on-site workshop designed to educate your loan officers, screeners, underwriters and marketing staff on how to attract and retain top clients by diversifying your commercial lending line.

Upon completion, your team will have the knowledge and tools needed to originate multifamily agency loans. Thereafter, your correspondent point-of-contact will make periodic on-site visits to review live multifamily deals with your team and offer guidance on various scenarios.

5. Servicing

All of the loans referred to your correspondent partner will be closed — and serviced — according to their typical practices. It's important to work with a company that handles all loan servicing in-house. This allows for a single point of contact for your borrower. It also ensures peace of mind during the loan term, and provides for proper communication channels when it comes time to refinance or exit the loan.

By working with a lender who handles servicing in-house, you can also arrange for a “warm transfer.” When a referred client calls your bank with a

servicing question, they can be transferred over instantly to someone who knows their loan — and just as importantly — their name.

You are also going to want to make sure that your partner has a sizable servicing portfolio. Look for a servicer with a good rating from Fitch or Standard & Poor's as well.

6. Technology

It's impossible to seamlessly extend your product offering through a correspondent partnership without an online loan platform. Your clients will benefit from working with a well-designed portal that is both user-friendly and secure. Our new lending platform Arbor Loan Express (ALEX) is the multifamily finance industry's first online agency loan platform. We now offer customized online financing, where borrowers, brokers and correspondent lenders can start and control the loan process from origination to closing. ALEX also offers 24-hour online and mobile access, as well as the fastest response time in the industry.

That being said, it's imperative that your lender partner also has the experience and staffing needed to offer top notch service to your clients. All

ALEX users will have a single dedicated loan officer acting as a personal guide throughout the lending process.

INTERESTED IN LEARNING MORE?

If you think forming a correspondent partnership would be a good way to extend your product offerings and better serve your clients, give Arbor a call. We're looking to help expand the capabilities of banks with a turnkey correspondent loan partnership.

If you'd like to see what a cutting edge online multifamily loan platform looks like in action, we'd be happy to coordinate an ALEX demo at your convenience. You — and your clients — will love it.

INTERESTED IN PARTNERING?

Call or Visit:
800.ARBOR.10 | arbor.com/correspondent

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