BENEFITS OF ARBOR'S SMALL LOAN PROGRAM

AN ARBOR WHITE PAPER

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MULTIFAMILY SMALL LOANS OVERVIEW

The optimal financing for any single multifamily real estate investment — whether an acquisition or a refinancing— is based on a litany of factors. They may range from more tangible, long-term goals for the property and its borrower, to the asset's operating fundamentals, to even more intangible components, such as the borrowing experience and ease of the loan process. It is for these numerous and often equally important reasons that a truly customized approach to multifamily financing was developed two decades ago for investors seeking what are simply referred to as "small balance loans."

Smaller multifamily properties provide a critical supply of affordable and market-rate rental housing nationwide; however, the financing market available to these properties had for many years been fragmented and non-uniform, leaving the sector wanting "in terms of adequate and appropriate financing product.

Thus Arbor was one of the first firms to participate in the Fannie Mae DUS® Multifamily Small Loan program and, now more recently, the Freddie Mac Small Balance Loan program— two GSE-sponsored financing options designed to provide the same market-leading terms, benefits and treatment of standard-size Fannie and Freddie multifamily loans, but with a more simplified loan process and reduced fees. Because of its long-standing small loan experience and expertise, Arbor was one of only a select few lenders licensed to offer borrowers both of these products at the very outset of their initial rollouts within the multifamily finance marketplace.

Today, the Freddie Mac and Fannie Mae small loan financing programs help the GSEs meet the their federal mandate to provide adequate financing options for affordable housing properties, which are quite often in need of small loan financing. Not surprisingly, the demand for customized small loan financing also remains high. In 2013, for example, 46% of all multifamily loans were less than $5 million each. By comparison, $5 million to $10 million loans accounted for 23% of the multifamily market, $10-million to $25 million loans produced 24% of the market and $25 million or more loans represented just 7% of the market.[1]

BENEFITS

Ranging from $1 million up to $5 million, small balance loans can be obtained for refinancing as well as property acquisitions in less time and for much lower fees than traditional large multifamily loans, but with the same financial benefits connected with the Freddie Mac Small Balance Loan and Fannie Mae DUS® Small Loan programs.

"The Fannie Mae and Freddie Mac Small Loan programs are very much worthwhile considerations for someone who owns or invests in multifamily properties because, first and foremost, you can achieve a long-term, fixed-rate mortgage of 10 years or greater, or a flexible adjustable-rate mortgage for as few as five years through the programs with low interest rates. That is something that's very difficult to obtain from a conventional bank," explained Ivan Kaufman, Chairman and Chief Executive Officer of Arbor, where small loans are at the core of its business. "It's also uncommon for banks to provide 30 years of amortization for small loans, but such amortization is available through Arbor Realty Trust under its small loan programs."

NON-RECOURSE

Banks also traditionally do not offer non-recourse financing on small multifamily loans, but it is a standard on Freddie Mac and Fannie Mae small loans, providing peace of mind and security for borrowers. With non-recourse debt, the loan in question is secured by the property alone, meaning if the borrower defaults on the loan, the lender cannot obtain any further compensation from the borrower beyond the seizure of the property, even if the property collateral does not cover the full value of the defaulted amount.

PRE-PAYMENT

For those multifamily investors choosing to pre-pay their loan quickly, flexibility is inherent in most small loans through lenders such as Arbor. For example, on a hybrid, adjustable-rate Freddie Mac Small Loan, the pre-payment is only 1% during the 15 years of floating rate on the loan. And for the five years of fixed rate on the loan, the pre-payment declines 1% each year, from 5% the first year all the way down to 1% in the fifth and final year.

INTEREST-ONLY

Adding further financial benefit to small loan financing is the interest-only payment option found with Freddie Mac Small Loans. By choosing an interest-only option, a borrower is able to defer payments for the loan principal for a pre-established amount of time, while only paying the interest owed during those years. It's a way to initially reserve capital for property capital expenditures or other investments, while garnering the investment returns from the property that was acquired or refinanced.

COMPETITIVE TERMS

Highly competitive fixed- and floating-rate terms are, of course, an integral part of Freddie Mac and Fannie Mae loans, including 1.20 debt service coverage ratios and no underwriting floors for properties in top markets as well as 80% loan to value nationwide. Borrowers may even obtain up to 65% LTV and 1.40 DSCR when utilizing the full-term, interest-only option. Loan terms across the Freddie Mac and Fannie Mae small loan programs also flexibly range from five to 30 years, with up to 30 years amortization, meaning the loan can be customized to meet your unique short- and long-term investment needs. Cash-out and assumable financing is also widely available, providing for even greater loan customization.

REDUCED FEES

Fees are kept at a minimum for Freddie Mac and Fannie Mae's Small Loan programs in order to meet the financial needs of borrowers. Application fees will generally total $10,000 to $12,500 on small loans, whereas standard-size Freddie Mac and Fannie Mae loans will total approximately $20,000 to $25,000 in application fees.

EXPEDITIOUS PROCESSING

The Fannie Mae and Freddie Mac Small Loan programs also carry with them the benefits of rather expeditious processing in comparison to traditional loans. The speed with which the loan can be processed is more or less a function of how quickly a borrower wishes to move, with a closing occurring in a maximum of 45 days or less following the receipt of the Small Loan application. The processing speed is enhanced in the case of small balance loans primarily because the required amount of legal documents, surveys and reports is at a minimum. For example, summary appraisal reports are only required as opposed to self-contained appraisals. Simpler, summary-level Environmental Site Assessment and Property Condition Assessment reports are also allowable in lieu of full, in-depth ESA and PCA reports.

CUSTOMER SERVICE & SMALL LOAN EXPERIENCE

Investing in a multifamily property is a big decision, especially for relatively inexperienced investors. Consequently, it is important and extremely helpful to work with a lender with significant, long-term small loan experience and a unique ability to personally walk borrowers through the loan process, ensuring peace of mind and expeditious closing.

Quite often in the multifamily financing business, the loan process can seem cold and impersonal with minimal direction and communication. But specialized small loan lenders, such as Arbor, have found success with borrowers over the long-term by personalizing the lending process and guiding clients through each step, one-on-one, from origination all the way through in-house servicing for the life of the loan. This level of familiarity with the lender is vital, as borrower questions and the need for clear answers will inevitably rise throughout the loan process and well beyond closing. Having one lender, one personal loan originator and one personal servicing portfolio manager can go a long way toward making a simple small loan feel like a larger financial partnership.

“Regardless of whether a multifamily investor needs a large or a small loan, he or she should, at a minimum, receive the same personalized treatment and the same competitive terms. However, because small loan borrowers often represent a unique sub-market, they also deserve loan products catered to their unique needs and goals.” Kaufman said. “Fannie Mae and Freddie Mac and their licensed lenders, such as Arbor, have demonstrated a special understanding of the small loan borrower through their targeted small loan programs, ensuring customized liquidity and strong financial foundations for all, wherever their portfolios take them.”

[1] Information provided by Chandan Economics.

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