

Agency Lenders Expect Clear Sailing

For agency lenders, what a difference a year makes.

In early 2014, they were paralyzed by uncertainty over whether the **Federal Housing Finance Agency** would further restrict the ability of **Fannie Mae** and **Freddie Mac** to purchase multi-family loans. While the agency regulator ended up leaving the existing caps in place, it didn't make the announcement until May. By then, originations had already tailed off significantly.

But in 2015, regulatory uncertainty is no longer a factor, and the origination rebound that started in the second half of 2014 is expected to continue.

"We believe 2015 is going to be a fantastic year," said **Jeffrey Hayward**, an executive vice president and head of Fannie's multi-family mortgage business. He said lending will be fueled by strong job growth, low vacancy rates and resurgent affordable-housing volume.

Mortgage bankers echoed that sentiment. "We're very bullish," said **Paul Cairns**, a senior vice president who co-manages **NorthMarq's** Freddie national originations program. "Rates are likely to remain low for the foreseeable future. There's lots of capital, lots of demand."

Michael Edelman, senior vice president and head of Northeast multi-family production for **Beech Street Capital**, agreed. "Going into 2015, it's going to be significantly stronger than 2014," he said.

With all the signals flashing green, the biggest danger lenders might face is getting "overly aggressive," added **Vincent Toye**, managing director and head of multi-family production at **Wells Fargo**.

The bullishness stems in part from last year's strong second half, when Fannie and Freddie each roughly doubled their loan purchases compared to the first half. Lenders attributed the volume jump to a more aggressive approach by the agencies that shifted the competitive balance in their favor, coupled with an overall jump in borrowing fueled by yet another drop in interest rates.

The surge enabled agency lenders to regain market share they had lost to banks, life insurers and commercial MBS programs in the first half. It also enabled the agencies to make up lost ground and get within striking distance of their annual purchase caps — \$30.4 billion for Fannie and \$25.9 billion for

Freddie. Full-year figures still aren't available, but through November, Fannie acquired \$23.8 billion of loans, and Freddie purchased \$20.5 billion. Each agency bought roughly \$3 billion of loans in November, so if that pace was matched in December, the annual totals would be \$26.8 billion for Fannie and \$23.7 billion for Freddie.

It's unclear whether the FHFA will adjust the caps for 2015, but just about no one expects them to be reduced. So lenders are confident that there's room for purchases to grow this year.

Also fueling the optimism is the huge amount of Freddie, Fannie and **Federal Housing Administration/Ginnie Mae** multi-family debt scheduled to mature over the next three years — some \$20 billion this year plus \$27 billion in 2016 and \$32 billion in 2017, according to the **Mortgage Bankers Association**.

The \$20 billion base amount of scheduled maturities is more than 50% higher than the \$13 billion total last year. But some of those loans have already been prepaid by borrowers taking advantage of low rates. That could affect individual lenders differently. For example, a "significant" amount of scheduled 2015 maturities on the books of **PNC** have already been refinanced, noted **Tom Booher**, an executive vice president and manager of agency finance. As a result, he added, "I think things could be fairly flat in 2015."

By the same token, though, some loans scheduled to mature in 2016 and 2017 will no doubt be refinanced this year.

Mitch Resnick, Freddie vice president of multi-family loan pricing and securitization, said the 10-year mortgages scheduled to mature this year generally weren't underwritten as aggressively as loans originated in 2007 and therefore are attractive refinancing opportunities. "They were not done at the height of the market," he said. "In general, commercial real estate values now are higher than they were in 2005."

Lenders also foresee volume contributions in some market segments that are excluded from the caps, including manufactured-housing, affordable-housing and small-balance loans. For example, Freddie rolled out a small-balance-loan program in October and initially approved three lenders, including **Greystone** of New York. "I expect Fannie and Freddie to continue to enhance their product offerings" in 2015 to compete with aggressive private lenders, said **Rick Wolf**, a senior managing director at Greystone. ❖