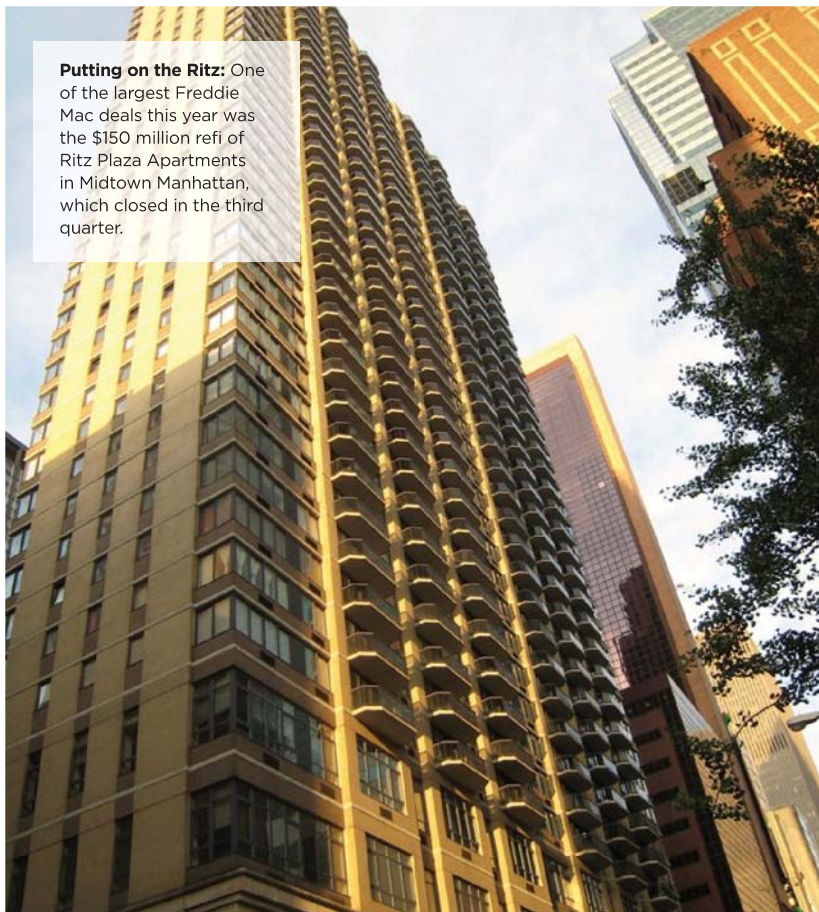


## Mortgage Lending **FREDDIE MAC**

# Survival of the Fittest

The GSEs stay neck-and-neck on 10-year fixed rate loans, though key differences remain. By Jerry Ascierio



**Putting on the Ritz:** One of the largest Freddie Mac deals this year was the \$150 million refi of Ritz Plaza Apartments in Midtown Manhattan, which closed in the third quarter.

LIKE RIVAL GAS STATIONS ON opposite corners, the price wars between Freddie Mac and Fannie Mae continue to benefit customers, with each agency picking its spots to steal market share from the other.

For starters, Freddie Mac's Capital Markets Execution (CME) program continues to win more converts. As of mid-October, the CME's fixed rates were on par with Fannie Mae's MBS pricing, with rates in the mid- to high-5 percent range for 10-year deals. But Fannie Mae has been more competitive on shorter-term loans. While both of the government-sponsored enterprises

(GSEs) are taking a tougher stance on short-term loans, underwriting conservatively and pricing widely, Fannie is offering rates about 40 basis points (bps) inside of Freddie on five-year deals.

Another key difference: Fannie is seeing a lot of business from large institutions looking to refinance, while Freddie seems to be winning more business on acquisition deals. Freddie offers a more flexible approach to acquisitions than Fannie, according to industry watchers, positioning the company to win more business as the transaction market slowly picks up.

Freddie is much more willing to consider two years of interest-only (IO) on a 10-year acquisition deal than Fannie is, for example. And borrowers looking to acquire solid assets in bad markets may have better luck with Freddie. "Fannie Mae paints weaker markets with a broader brush," says Don King, head of agency lending at Boston-based CWCcapital. "Freddie is looking at individual transactions and making a business decision, but Fannie is much more rigid: This is the underwriting box, and if it doesn't fit, it doesn't fit."

While Fannie will consider entire states "pre-review" markets, Freddie will pick certain metros within those states to offer market rates. For instance, CWCcapital recently worked on an acquisition deal in Atlanta, which both Fannie and Freddie consider to be a weak market. But the individual deal was outperforming the market significantly, so Freddie offered to go up to 80 percent loan-to-value (LTV) on the deal, while Fannie insisted on a 65 percent LTV.

### Floating Away

Regardless of geographic location, Freddie's Capped Adjustable Rate Mortgage (ARM) product, a floating-rate execution, continues to win more deals than Fannie's adjustable-rate offerings. "The Capped ARM product has consistently been a more attractive execution this year," says Bill Hyman, executive managing director at New York-based Centerline Capital. "That's still the case. It's a question of rate."

Rates on Freddie's Capped ARM are routinely about 80 bps lower than what Fannie is offering, as of mid-October. Part of the reason Freddie is able to offer such low rates is that the company uses its 30-day reference bills as the benchmark rate. Fannie, on the other hand, uses LIBOR, which at 25 bps is about twice as high as Freddie's 30-day notes.

The price of the interest-rate hedge Freddie offers also contributes to the low

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ARM rates. "The all-in spread that Freddie Mac can offer is tighter, and it has to do with how Freddie Mac is able to price the cost of providing the interest rate caps," Hyman says.

### Cashing Out

While both GSEs seem more conservative about cash-out refs, two massive deals done in the third quarter show that Freddie still has a healthy appetite for such deals.

In September 2008, Todd Trehubenko, president of CAS Financial Advisory Services, received a call from a longtime client. The client's property, Church Park Apartments, a 508-unit Class A asset in Boston, had a large loan coming due in January 2010. But the owner was worried that liquidity wouldn't be there come maturity. So Trehubenko began canvassing the market looking for debt, a search that ended with Freddie. "Freddie Mac is really trying

to grow its business through the CME program," Trehubenko says. "They were able to be more aggressive in pricing, and we were able to achieve greater proceeds because of the lower rate."

The \$130 million cash-out refi, a 10-year deal with a 5.5 percent fixed rate, was obtained through CWCcapital. The loan had a 1.25x debt service coverage ratio (DSCR) and an LTV ratio in the 65 percent to 70 percent range. The all-in rate using the portfolio would've been 30 bps higher.

An even bigger deal closed through the CME program in the third quarter. The refinancing of Ritz Plaza Apartments, a 479-unit luxury high-rise in Midtown Manhattan, scored a \$150.8 million CME loan in late July. The 5.3 percent deal offered a rate roughly 30 or 40 bps below Freddie's portfolio execution. Stonehenge Management pulled about \$30 million in equity from the refi, which was arranged by Meridian Capital Group and closed by Walker & Dunlop.

Walker & Dunlop had kicked the tires on some Fannie Mae executions, but "CME offered the ability to do something with better leverage," says Drew Anderman, senior vice president of multifamily finance at Walker & Dunlop in Bethesda, Md. "We felt that for the size of the deal and the fact that it was a massive cash-out, it would be better for the client to go with Freddie's CME."

### Product Migration

In addition to conventional deals, student housing, age-restricted housing, and even Section 8 deals are available under CME. But only fixed-rate loans are eligible for the program, so Freddie is working to make the ARM product eligible for CME.

The agency also is working on a securitized affordable housing execution, independent of the CME program, which may lead to affordable housing-only CMBS pools. Since the typical CME investor isn't as familiar with affordable housing as it is with conventional assets, an affordable-only pool would target the active investors in that space, such as banks driven by Community Reinvestment Act needs.

Indeed, Freddie Mac is getting serious about winning affordable or workforce housing deals in the fourth quarter. The company recently signaled to its lenders that, for the rest of 2009, it would give big price breaks for deals with a significant portion of affordable units. ■



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