

John Brickson, Director with Old Capital Lending



Presents:
**FINANCING YOUR
MULTIFAMILY INVESTMENT**

Text your name and Email [913-638-8871](tel:913-638-8871) for Presentation Slides and
Additional information on Multifamily Financing



Agenda

1. Loans Available for Multifamily Properties
2. Freddie SBL Overview
3. Freddie SBL Case Studies
4. How to connect with Old Capital
5. Next Steps and Final Q&A

John Brickson



Director, Old Capital Lending
Nationwide Lender

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913-638-8871

- Nationwide lender with closings in DFW, Houston, Seattle, Kansas City, Florida, Minnesota and Virginia over the past 12 months.
- Born and raised in Kansas City, based in Dallas-Ft. Worth since 2014
- BA in Economics from DePauw University in Indiana
- Seven years of experience in commercial real estate financing and investing.
- Directly involved with the origination and underwriting of over \$1.0Bn in commercial real estate loans across all property types over the course of his career

Banks, Fannie Mae and Freddie Mac Small Balance Loans

- Minimum Loan Size
- Recourse
- Typical Loan Term
- Amortization
- Max LTV (Acquisition/Refinance)
- Property Occupancy
- Rehab Budget
- Prepayment
- Borrower Experience

Minimum Loan Amount

- Banks: No minimum loan amount
- Fannie Mae and Freddie Mac: \$1,000,000

	Bank Loan	Fannie Mae	Freddie Mac SBL
Minimum Loan Amount	No Minimum	\$1,000,000	\$1,000,000

Recourse

- Banks: Full Recourse
- Fannie Mae and Freddie SBL: Non-Recourse
- Full Recourse is a personal repayment guarantee on the loan

	Bank Loan	Fannie Mae	Freddie Mac SBL
Recourse	YES	NO	NO

Loan Term

- Banks: 3 to 5 years
- Fannie Mae: 5 to 30 years
- Freddie SBL: 5, 7 and 10 years

	Bank Loan	Fannie Mae	Freddie Mac SBL
Typical Loan Term	3-5 Years	5 to 30 Years	5, 7 or 10 Years

Amortization

- Banks: 20 - 25 years
- Fannie Mae and Freddie SBL: 30 years with 1 to 3 years of interest-only
- Fannie Mae and Freddie SBL have lower P&I payments, which equates to better cash flow for the investor.

	Bank Loan	Fannie Mae	Freddie Mac SBL
Amortization	20-25 Years	30 years with Interest Only	5, 7 or 10 Years

Max LTV / Min DSCR

- Banks: 75% / Minimum DSCR dependent on the Bank
- Fannie Mae: 80% Acquisition and 75% on Refinance / 1.25x DSCR
- Freddie SBL: 75% to 80% for Acquisition, 70% to 80% on Refinance / 1.20x DSCR to 1.40x DSCR

	Bank Loan	Fannie Mae	Freddie Mac SBL
Max LTV (Acquisition/Refinance)	75%/75%	80%/75% 1.25x	80%/80% 1.20x - 1.40x

What is DSCR?

- DSCR is “Debt Service Coverage Ratio”
- Net Operating Income / Annual Principal and Interest
- For Example:
 - Purchase Price: \$10,000,000
 - Net Operating Income: \$500,000
 - Loan Amount at 80% LTV: \$8,000,000
 - Interest Rate: 4.50%
 - Amortization: 30 years
 - Annual Principal & Interest: \$486,418
 - DSCR @ 80% LTV: 1.03x
 - Loan amount at 1.25x DSCR: \$6,600,000 (66% LTV)

Property Occupancy

- Banks: Flexible
- Fannie Mae and Freddie SBL: 90%

Type of Loan	Bank Loan	Fannie Mae	Freddie Mac SBL
Property Occupancy	Flexible	Minimum 90% for past 90 days	Minimum 90% for past 90 days

Rehab

- Banks: Included in the loan
- Fannie Mae: Included in the loan, up to 80% of purchase price + rehab
 - DSCR must be 1.25x
- Freddie SBL: Not included in the loan, only 80% of the purchase price
- For example, \$5,000,000 Purchase Price, \$500,000 in budgeted rehab:
 - Bank (75% of \$5,500,000): \$4,125,000
 - Fannie Mae (80% of \$5,500,000): \$4,400,000
 - Freddie SBL (80% of \$5,000,000): \$4,000,000

Type of Loan	Bank Loan	Fannie Mae	Freddie Mac SBL
Rehab Budget	Included in loan	Included in loan	Not included in loan

Prepayment

- Banks: Limited to no prepayment
- Fannie Mae: Yield Maintenance
- Freddie SBL: Yield Maintenance or Step Down

Type of Loan	Bank Loan	Fannie Mae	Freddie Mac SBL
Prepayment	Limited to none	Yield Maintenance	YM or Step Down

What is Yield Maintenance and Step Down?

- Yield Maintenance:
 - Guarantees the lender that they will receive all interest payments as if the Borrower held the loan through maturity
 - Net present value of all remaining interest payments on the loan
 - For example:
 - If you pay off a 10-year Fannie Mae loan in year 5, Borrower will pay net present value of all remaining interest payments for remaining 5 years of loan term
- Step Down:
 - % of Loan Amount that declines over the loan term
 - I.e., 10 year loan with 5544332211 step down prepay
 - Payoff the loan in year 4, prepayment penalty is 4.0% of the loan amount
- OVERALL: Yield Maintenance = higher prepayment penalty

Borrower Experience

- Banks: No Experience Required
- Fannie Mae: At least one of the Key Principals needs to have multifamily experience
- Freddie SBL: Will accept new investors on a case-by-case basis

Type of Loan	Bank Loan	Fannie Mae	Freddie Mac SBL
Borrower Experience	New investor	Experienced	Experienced/ New Investor

Summary of Loan Types

Type of Loan	Bank Loan	Fannie Mae	Freddie Mac SBL
Recourse	YES	NO	NO
Typical Loan Term	3-5 Years	5 to 30 Years	5, 7 or 10 Years
Amortization	20-25 Year	30 years with Interest Only	30 years with Interest Only
Max LTV (Acquisition/Refinance)	75%/75%	80%/75%	80%/80%
Property Occupancy	Flexible	Minimum 90% for past 90 days	Minimum 90% for past 90 days
Rehab Budget	Included in loan	Included in loan	Not included in loan
Prepayment	Limited to none	Yield Maintenance	YM or Step Down
Borrower Experience	New investor	Experienced	Experienced/ New Investor

Bridge Loans

- For value-add properties with significant upside, for example:
 - 60% occupied property, purchase price of \$5,000,000 and stabilized value of \$7,500,000
- For experienced borrowers with significant net worth, liquidity and experience owning and investing in multifamily properties
- No “Box” for bridge loans, but general terms are:
 - Non-recourse
 - 80% of purchase price + rehab
 - 2 to 3 year terms with extension options
 - Limited prepayment penalties
 - Higher interest rates (5.75% and higher)

Freddie Mac Small Balance Loans (SBL)

- Loan Size: \$1MM - \$6MM (Can go up to \$7.5MM in Top and Standard Markets)
- Up to 80% LTV / 1.20x DSCR
- Non-Recourse
- 30 Year Amortization
- Interest Only Available
- Competitive fixed rate pricing, rate is LOCKED at loan application
- 5, 7 and 10 year terms available
- Flexible, points-based prepay available

Freddie Mac SBL Sizing Parameters

Market Tiers:

- Top Markets: Certain Counties (but not all) in the following MSAs: New York, Los Angeles, Chicago, Washington DC, San Francisco, Miami, Seattle, San Diego, Denver, Minneapolis, Portland, San Jose and Stamford, CT, Dallas, TX
- Standard Markets: Larger MSAs not included in Top Markets, examples include: Salt Lake City, Phoenix, Indianapolis, St. Louis, Kansas City, San Antonio, Austin, Houston, Pittsburgh, etc.
- Small Markets: Smaller MSAs: Green Bay, WI, Montgomery, AL, Chico, CA, Binghamton, NY, Asheville, NC, Abilene, TX, Reno, NV
- Very Small Markets: Typically less than 30k in rental population, examples include: Sioux Falls, SD, Abilene, TX, Napa, CA, Panama City, FL, Grand Junction, CO

	Max LTV Acquisition	Max LTV Refinance	Minimum DSCR
Top Markets	80%	80%	1.20x
Standard Markets	80%	80%	1.25x
Small Markets	75%	70%	1.30x
Very Small Markets	75%	70%	1.40x

Why Freddie SBL?

- Like Fannie Mae, Freddie can offer long-term, non-recourse, fixed rate loans with 30 year amortization....
- But unlike Fannie Mae, Freddie can
 - Offer flexible, declining prepayment options
 - Lock the interest rate at loan application
 - Finance first time multifamily investors

Qualifying for Freddie SBL

Stabilized

- Physical occupancy of at least 90% for the 90 days prior to loan closing

Loan Size

- Minimum loan size is \$1.0MM, maximum loan size is \$7.5MM

Net Worth and Liquidity

- Net Worth equal to 100% of loan amount, Liquidity equal to 9 Months of P&I

Third Party Management

- Borrower must hire a qualified third party property manager to manage the asset

Acquisition Timeline

Potential Acquisition Identified

Contact John Brickson for Financing Terms

Underwrite the property utilizing financing terms provided by John

Submit LOI

LOI Accepted, request loan application from lender

Negotiate PSA, complete the initial property inspection

PSA and Loan Application are signed

Closing Timeline

Day 1

Loan app signed, expense deposit wired, rate locked

Day 2

Third party reports engaged, due diligence checklist is provided, inspection dates are arranged

Day 21

All due diligence has been provided, Third Party reports completed

Day 35

Lender submits their underwriting package to Freddie Mac for approval

Day 45

Freddie Mac approves the loan and the commitment letter is received

Day 45-50

Legal and title is finalized, settlement statement is prepared

Day 50-60

Loan is closed

Freddie Mac SBL Case Study - #1

Transaction Overview:

- Borrower purchased the property for \$1,000,000 in July of 2017 and invested \$200,000 in CapEx for a total cost basis of \$1,200,000.
- Financed the acquisition and rehab with a \$950,000 recourse loan with a local bank
- Closed a cash-out refinance through the Freddie Mac Small Balance program in November of 2018



Bridgeport Townhomes
7 Units in University Place, WA
\$1,380,000

The Borrower was able to do a cash-out refinance at 115% of their cost basis after 15 months of ownership.

Freddie Mac SBL Case Study #2

Transaction Overview:

- High net worth out-of-state multifamily investor wanting to break into the DFW market
- Old Capital sourced the acquisition, helped Borrower win the property in a highly competitive bidding process
- Financed the acquisition with a 78% LTV, 7-year loan with two years of interest only and step-down prepay.



Whisperwood Apartments
32 Units in Garland, TX
\$1,700,000

Freddie Mac SBL will finance first time multifamily investors that hire a qualified, third party property manager.

Old Capital Lending

- DFW based multifamily lender with a Texas focus and national expertise
- We focus on B and C multifamily properties
- Closed over \$1.0Bn in loans in 2018
- Old Capital Podcast
- Old Capital Multifamily Conference
- Old Capital Facebook page or Oldcapitalpodcast.com



Next Steps and Q&A



Director, Old Capital Lending

Nationwide Lender

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Next Steps:

1. Education: Subscribe to Old Capital Podcast, Like our Facebook Page, Request a copy of the Old Capital Multifamily Financing Whitepaper.
2. Qualification: Complete Personal Financial Statement and set up time to talk with John Brickson
3. Build Your Team: Add a strong lender, additional key principals, attorneys and property managers
4. Start underwriting new listings
5. Make Offers with loan term sheets, strong sponsor resumes and proof of funds
6. CLOSE the deal!

Questions: Type in the chat box

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