



JANOVER VENTURES

Intro to Multifamily Financing

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Multifamily Lending Sources

01

Banks

Mostly regional and community banks; national banks typically not ideal source.

03

CMBS Lenders

Collateralized Mortgage Backed Securities.

05

Debt Funds

02

Agencies

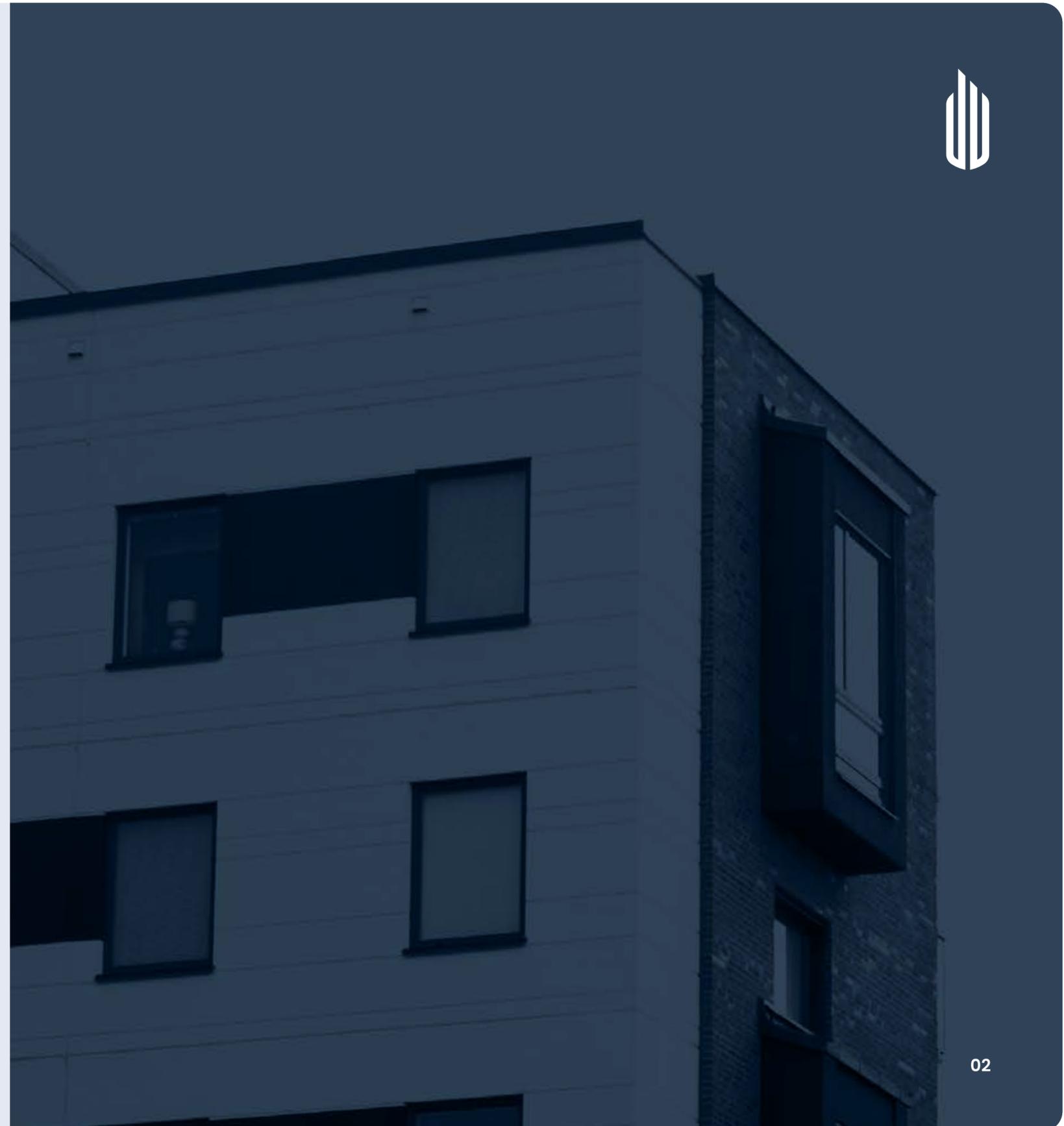
Freddie Mac, Fannie Mae, HUD.

04

Life Insurance Companies

06

Private Capital





Comparison of the Major Lending Sources for Multifamily Properties

Lender Type	Select Multifamily Loan Programs	Term	Typical Max. LTV	Max. Amortization	Typical Debt Service Coverage	Non-Recourse	Prepayment Penalty	Typical Max. Soft Rehab Funds / Unit	Loan Amount
Fannie Mae	Small Balance	5-30 years	80%	30 years	1.25x	Yes	Yield maintenance or declining prepay	\$7,000	\$1-6M (DFW: \$1-3M)
	DUS	5-30 years	80%	30 years	1.25x	Yes	Yield maintenance	\$7,000	\$3M+
	7-year adjustable rate with conversion option	7 years	80%	30 years	1.00x (at max. rate)	Yes	1% after 1 year lockout	\$7,000	\$1M+
Freddie Mac	Small Balance	5-10 years with hybrid option	80%	30 years	1.20x (1.25x in DFW)	Yes	Declining or yield maintenance	None	\$1-7.5M (most markets: up to \$6M)
	Fixed Rate	5-30 years	80% (75% for 5 yr term)	30 years	1.25x (1.30x for 5 yr term)	Yes	Declining or yield maintenance	None	\$1M+
	Floating rate	5, 7, 10 years	80% (75% for 5 yr term)	30 years	1.05x	Yes	Varies	None	\$1M+
FHA	223(f)	Up to 35 years	85% (Up to 90% for affordable properties)	35 years	1.176x (1.11-1.15x affordable)	Yes	Varies – generally declining 10% to 1% after lockout	Varies	Typically \$2M+
CMBS	Fixed	5-10 years	70-75%	20-30 years	1.10x – 1.30x	Yes	Yield maintenance or defeasance	Varies	\$2M+
Banks & Private Lenders	Fixed and floating	3-20 years	70-75%	20-30 years	1.10x – 1.30x	Varies	Varies	Varies	\$500,000+
Life Insurance Companies	Fixed	5-20 years	65-70%	20-30 years	1.25x	Yes	Varies	Varies	\$5M+
Bridge	Floating with cap	1-5 years	65-80% LTC	I/O	Varies	Yes	Varies	Varies	\$2M+



Main lending sources for new entrants into multifamily

Banks

- Typically full-recourse.
- Usually 70-75% maximum LTV.
- 3-10 years fixed.
- 15-30 years amortization.
- Interest only very limited.
- Interest rate locked at application.
- Flexible prepayment penalties.
- Rehab costs often financed.
- Non-stabilized properties ok.
- Flexible net worth requirement.
- Flexible post-closing liquidity.
- Prior MF ownership not required.
- Third-party management sometimes waived.

Freddie Mac SBL**

- Non-recourse.
- Up to 80% LTV.
- 5-10 years fixed, hybrid option.
- 30 years amortization.
- Full term or partial I/O available.
- Interest rate locked at application.
- Step-down or yield maintenance.
- Rehab cost not included.
- Must be stabilized (85-90% occupancy).
- Net Worth \geq Loan Amount.
- Post-closing liquidity \geq 9-12 months P&I.
- Prior MF experience is typically required.
- COVID escrow reserve funded at closing.
Typically 12 months of P/I payments, released after 12 months. Waived at lower leverage with strong DSCR.

Fannie small loans

- Non-recourse.
- Up to 80%.
- 5-30 years fixed.
- 30 years amortization.
- Full term or partial I/O available.
- Interest rate locked at commitment letter.
- Step-down or yield maintenance.
- Typically up to \$8k/unit in rehab costs.
- Must be stabilized (at least 90% occupancy).
- Net Worth \geq Loan Amount.
- Post-closing liquidity \geq 9-12 months P&I.
- Prior MF ownership not required (must be local).
- Third-party management required if no multifamily experience or not local.
- COVID escrow reserve funded at closing.
Typically 6-18 months of P/I payments, released after 9 months. Waived at lower leverage.

** Small Balance Loans

Main Borrower Requirements

01

Usually an entity.

Corporation LLC, LP, GP, Trust,
TIC (usually limited to a small number of co-tenants).

02

Some lenders/programs allow individuals as borrowers but single asset entities are preferred and recommended.





Main Borrower Principal Requirements

(AKA Key Principal)

01

All managing members, general partners, trustees (anyone taking a “managing” role) in borrowing entity; lender has discretion to identify borrower principals.

02

Anyone investing 25%+ in borrowing entity.

Threshold may be lower depending on program or for non-U.S. persons.



01

Engage team members (legal counsel, loan broker, insurance broker, property management company) early in the process – this is a Team sport.

02

Prior multifamily experience is required for some loan programs.

03

Ask lender/loan broker and property management company to review your underwriting prior to submitting. An offer is required for some loan programs.

04

In-place P&L and Pro Forma of OM are likely very different than how lenders underwrite the deal.

05

If you syndicate, make sure that you follow the law to the dot and engage an SEC lawyer to guide you along.

06

Have your co-guarantors lined up early.



Pointers



Typical Loan Scenarios



Typical Non-Recourse Loan Terms:

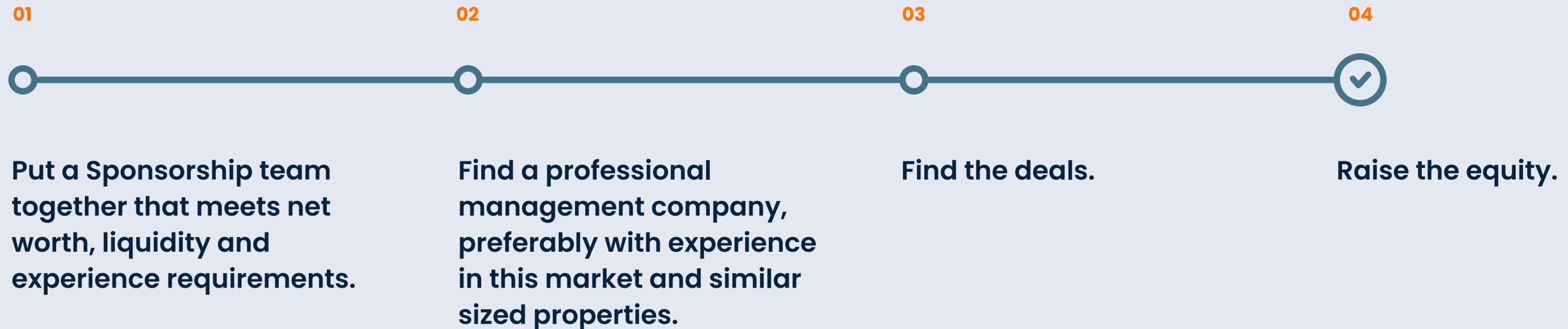
- 75-80% LTV.
- 5-30 year fixed terms (balloon).
- 30 year amortization.
- Non-recourse.

Typical Recourse Loan Terms:

- 70-75% LTV.
- 5-10 year fixed terms (balloon).
- 20-30 year amortization.
- Full-recourse.



Four Pieces of this Simplified





Typical Lender Deposits to Start the Loan Process

\$10,000

Fannie Mae

\$12,500

Freddie Mac

\$2,500+

Bank

\$20,000+

CMBS

These deposits are required to start underwriting/legal and allow the lender to order third-party reports.

Typical Third-Party Reports Needed

01

Appraisal (10 – 15 business days)

Lenders will loan based on the lower of appraised value or purchase price.

02

PCNA (10 business days)

Determine immediate repairs and establish capital replacement reserves.

03

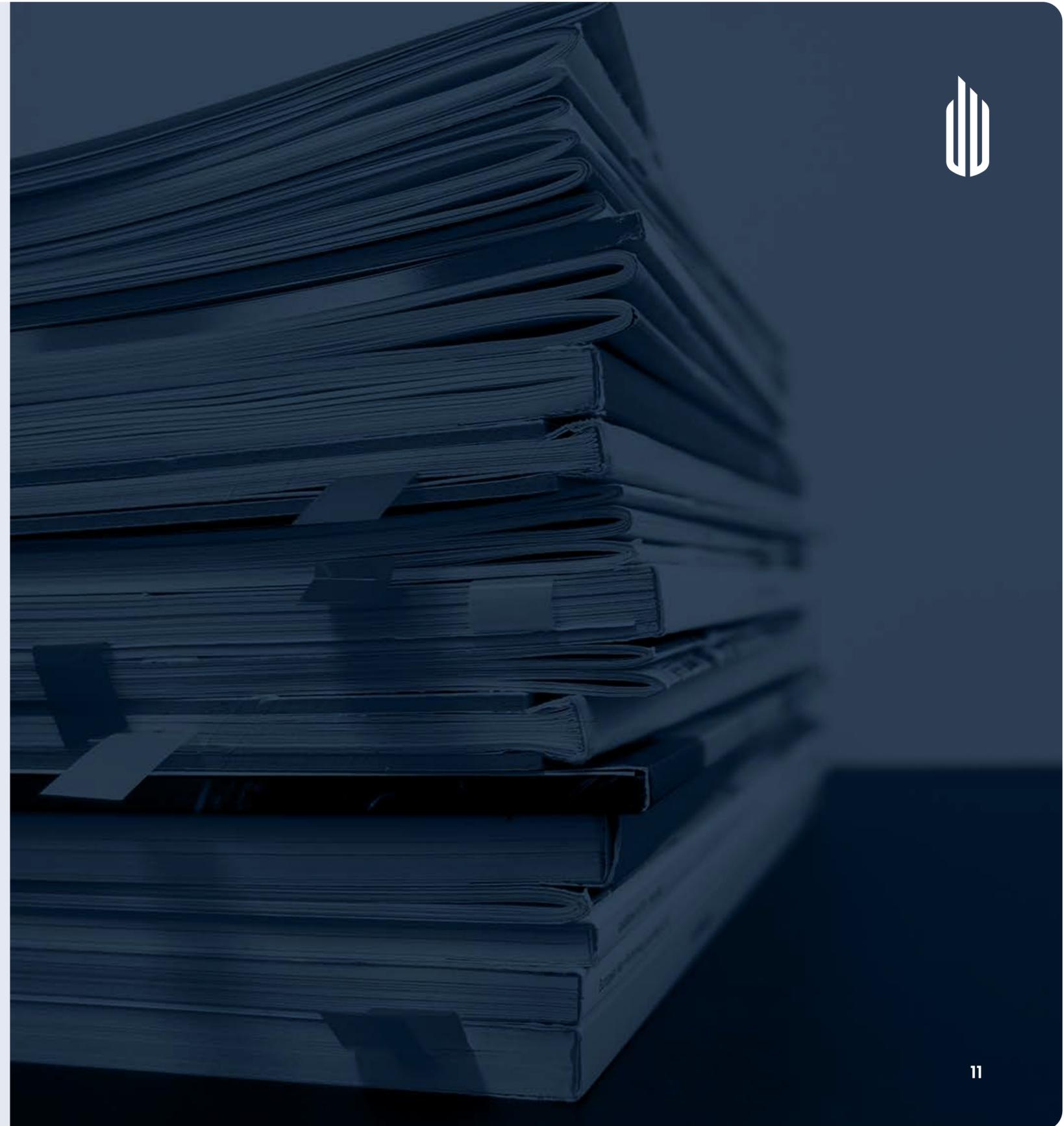
Environmental (10 business days)

Phase 1 to check for environmental issues.

04

Survey (15 business days)

If required by lender/title company.





Pre-Deal Funding Requirements

01

Use your money for pre-deal and up-front costs if possible.

02

If you don't have enough savings, borrow from friends/ family.

03

Be creative.

04

Do whatever you have to do because after your first deal's acquisition fee you won't need it again.



Your Objectives



Put as little of your own cash in the deal as possible.



Get the return of you and your investor's money as quickly as possible.



Force the highest appreciation you can in the shortest time.

Ways to reduce the down payment

01

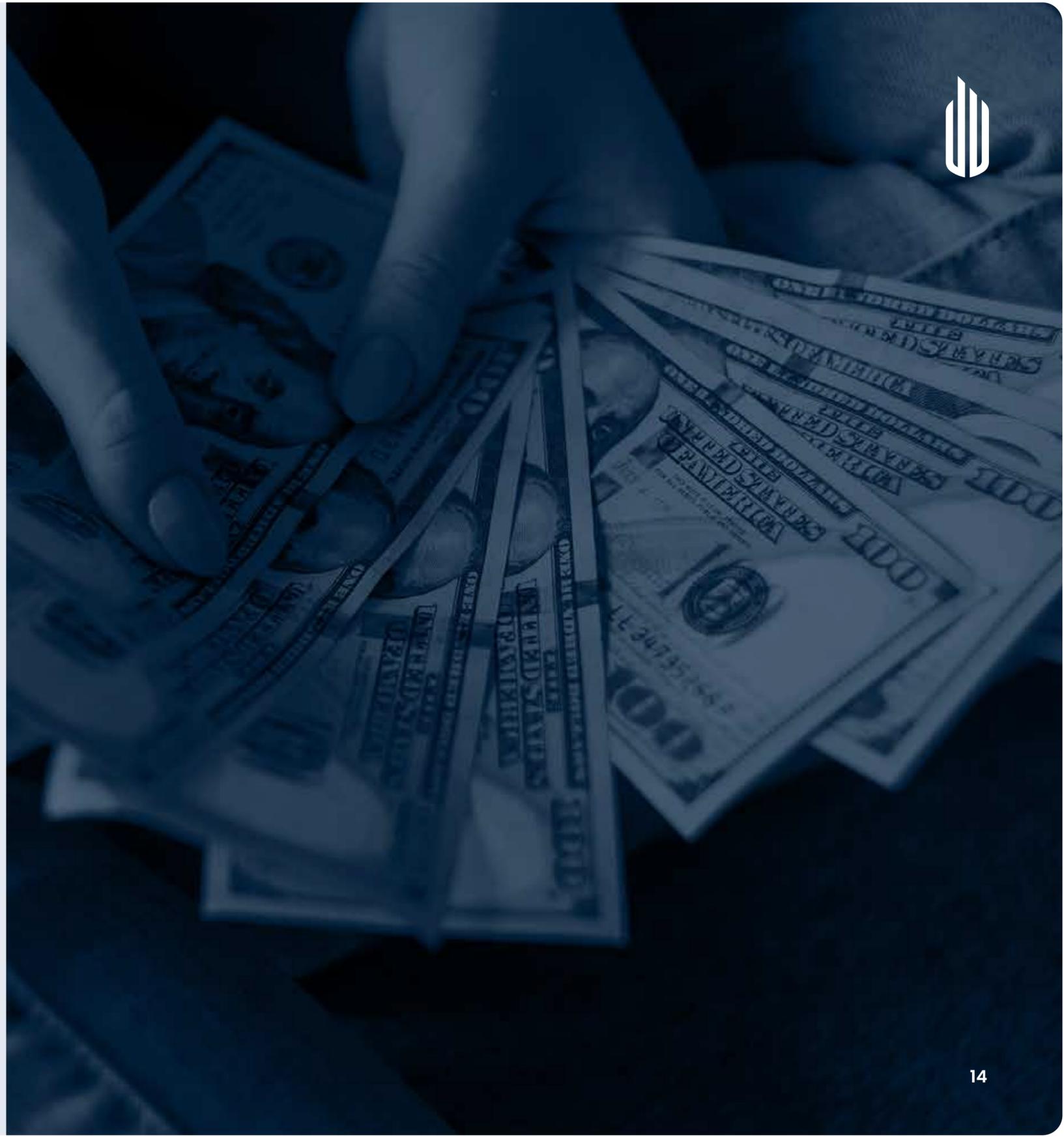
You should get credit for the security deposits.

02

Always close on the 3rd day of the month if you can.

03

Get a repair credit from the seller.





FNMA / Freddie / CMBS

Lender will submit to loan committee upon review of all due diligence, third-party reports and completion of underwriting. Typically 45-60 days to close.

Bank

Investment committee approval is upfront within the first 7-10 days into the transaction. If approved, it will be subject to appraisal, engineering, and environmental reports. Typically 30-45 days to close.



Approval and Closing Timelines



Questions to Ask the Bank / Yourself When Evaluating a Loan



**Loan terms. LTV,
DSCR, Amortization,
Balloon.**



**All loan costs
and fees.**



**Early prepayment
penalty?**



**What are all
the additional fees
you will need to pay?**



**The Term Sheet
is Negotiable.**



Note Typical closing costs are 3% of the loan amount.

The Loan Package

01

Remove any lender objections before they come up.

02

Show any detractors as value adds in the package.

03

Have answers already outlined for all issues.

04

Pictures that show the property in a positive light.

05

The property on a map with points of interest around it.

06

Marketing plan.



Loan Package



- 01**
General requirements.
- 02**
Completed application form.
- 03**
Copy of purchase agreement.
- 04**
Copy of any other agreements between you and the seller such as LOI.
- 05**
Subject property information.
- 06**
YTD P&L. (preferably month by month)
- 07**
Last 2–3 years P&L's.
- 08**
Current rent roll.
- 09**
Lease examples including new lease agreements and current signed leases.
- 10**
Proforma/budget.
- 11**
Property insurance binder.
- 12**
Property tax statement.
- 13**
Information on management company you will be using.
- 14**
Copies of past appraisals, surveys, environmental reports.
(If available)

Loan Package: Borrower Information

01

Prior management experience or property management report with resume, marketing plan, resident retention plan.

02

Prior and present properties owned.

03

Financial strength and stability of any sponsorship group.

04

Detailed use of funds IE: loan fees, deferred maintenance, etc.

05

Exit Strategy: show at least two, including refinance or sale.





Basic Agency Criteria: Experience

01

Ideal Situation:

- The Principal(s) of the General Partnership (GP) are local and reside within 100 miles of the subject property.
- The Principal(s) of the GP have 2+ years experience as owners of a Multifamily complex (5 or more units).
- There will be a professional third-party management company hired to manage operations of the complex.

02

What if you aren't local?

If you live out of state or more than 100 miles from the subject property, you are considered non-local. You can still get approved if you meet the other two requirements: hiring third-party management and having at least 2 years experience as a GP Multifamily owner.

03

What if this is your first multifamily deal?

If you don't have at least 2 years experience as a GP Multifamily owner and this is your first multifamily acquisition, you can still get approved if you are considered local and also hire professional third-party management. You can also add an experienced partner to your deal.



Basic Agency Criteria: Financial Requirements

Experience doesn't hold much weight if the members of the GP don't meet basic financial requirements.

01

Net Worth:

The combined Net Worth (NW) of the Principal Guarantors in a GP should be equal to or greater than the loan size.

Example:

If the loan is \$2.75M and 2 Principals in the GP have a respective NW of \$1.75M and \$1M, this would be sufficient.

02

Liquidity:

The combined Liquidity of the GP should be equal to or greater than 9 months of annual Principle & Interest (P&I) payments.

- On a refinance, If your annual P&I is \$120K, the minimum liquidity required would be \$90K.
- On an acquisition, it would be 9 months of P&I + transaction down payment.



Tips

- Agencies generally require greater than 680 credit.
- If you are short on Net Worth or Liquidity, adding one or more partner can make you financially strong.
- Principal(s) to the GP is solution to increase the financial strength of the GP Sponsorship / Borrowing Entity.

- When possible, you always want to exceed the requirement rather than just meet it! This looks better from a credit perspective when applying for an agency loan on your first deal or when the deal is in Loan Committee Review.



Does Market Matter?

- Fannie Mae & Freddie Mac loans can be delivered nationally across the United States.
- Top MSAs with strong Sponsors typically receive the most competitive financing from the Agencies.
- Freddie Mac's small balance program is currently the most competitive for Top MSAs and Fannie's small balance program is more competitive in Secondary and Tertiary markets.
- Secondary, Tertiary or Volatile markets may end up receiving more constraints on deal terms.

Example:

75-80% Loan to Cost (LTC) may be approved in Charlotte, NC MSA (Standard market) but a market like Odessa, TX (Small Market) may be limited to 65-70% LTC.

- Houston, TX MSA – Oil market concerns.
- Las Vegas, NV MSA – Volatility concerns, tourism workforce dependent.
- Any small markets with low populations, minimal job growth or growing vacancy rates.

You are more likely to receive attractive terms:

- If the property being financed is in a smaller market and the Sponsorship is experienced and has the financial wherewithal, then a higher DSCR and lower leverage will help in achieving more competitive terms.
- Many factors are considered prior to loan terms being extended by a lender:
 - Property Historical Performance, Market, Sponsorship Experience, Sponsorship Financial Strength.
 - High or Moderate or Low Leverage? How many years of Interest Only?

- Debt Service Coverage Ratio, or DSCR, is a measurement of an entity's cash flow vs. its debt obligations.

$$\text{DSCR} = \frac{\text{Net Operating Income}}{\text{Debt Service}}$$

- An MSA is a metropolitan statistical area. You can click [here](#) for a list of MSAs.



General differences between Bank Loans & Agency Loans

	Loan Terms	Leverage	Interest Only	Prepayment	Amortization	Non-Recourse	Financial Requirements
Bank Loans	3, 5 or 10 year Fixed Terms	Typically up to 75%	Minimal	None or a minimal percentage	Typically 20 to 25 year amortization	Typically recourse only; Larger Banks may offer non-recourse	Depends on bank, recourse typically allows for flexibility
Agency Loans	5, 7, 10, 12, 15, 20 or 30 Fixed Terms; Hybrid options available	Up to 80% on acquisitions; up to 75% on refinances	1 to 5 years available depending	Yield Maintenance or Step-down	30 year amortization standard	Non-Recourse with standard carve-out provisions	Must meet Net Worth & Liquidity requirements



Overview of Fannie & Freddie Small Loan Programs

	Property Types	Loan Amount	Loan Purpose	Loan Terms	Loan to Value (LTV)	Amortization	Non-Recourse
Fannie Mae Small Loans	Multifamily, minimum five units	\$1 million - \$6 million	Acquisition or Refinance	Fixed-rate loan terms of 5, 7, 10, 12, 15 or 30 years; Hybrid ARM loan terms of 30 years with initial 5, 7 or 10 years fixed	Up to 80%, acquisitions can have CapEx up to \$8k/unit built in	Up to 30 years; interest-only options available	Non-Recourse with standard carve-out provisions required
Freddie Mac Small Balance Loans	Multifamily, minimum five units	\$1 million - \$7.5 million	Acquisition or Refinance	Fixed-rate loan terms of 5, 7 or 10 years; Hybrid ARM loan terms of 20 years with initial 5, 7 or 10 years fixed	Up to 80%	Up to 30 years; interest-only options available	Non-Recourse with standard carve-out provisions required



COVID-19 Escrow Reserves

At closing, the borrower shall be required to fund the principal and interest payments. The “P&I Reserve” is calculated based on full amortization using the actual interest rate and the stated amortization term. The following reserves are in addition to the standard taxes, insurance, and replacement reserves required by Fannie Mae and Freddie Mac. Additionally, the 9 to 12 month liquidity reserve is also required.

Release of P&I Reserve

Fannie Mae

Reserves are to be released after nine months, assuming the property has maintained the required debt service coverage ratio for at least one quarter.

Freddie Mac

Reserves are to be released after 12 months, assuming the property has maintained the required debt service coverage ratio for at least two quarters.

	Tier 2 (>65% LTV)	Tier 3 (>55% LTV)	Tier 4 (<55% LTV)
Fannie Mae	18 months of P/I **	6 months of P/I	Waived
Freddie Mac	12 months of P/I	12 months of P/I	Waived

** For loan amounts above \$3MM, Fannie Mae only requires 12 months of P/I.



HUD 223(f). A higher leverage, longer amortization, non-recourse loan

Property Types	Loan Amount	Loan Purpose	Loan Term	Loan to Value (LTV)	Amortization	Non-Recourse
Multifamily, minimum five units	Starting at \$1MM	Acquisition or Refinance	35 Year Fixed	Up to 85% for a purchase and 80% for a refinance; higher LTV's are available on purchases for affordable properties.	35 Year	Non-Recourse with standard carve-out provisions required

✘ Cons:

- Higher loan costs.
- HUD will require annual audits.
- Takes longer to close; can exceed 6+ months.
- Only two owner distributions are allowed per year.
- Required repairs can be expensive for non-ADA and older properties.
- Annual mortgage insurance is required on top of your interest rate. The amount is 0.60% per year for Market Rate properties, 0.25-0.35% for Affordable properties and 0.25% for Green properties.
- HUD will hold back 50% of any cash-out until any post-closing required repairs are completed.
- Experienced professional management company typically required.

✔ Pros:

- Lowest rates available for multifamily debt.
- Fixed and fully amortizing for 35 years.
- Higher leverage than conventional/agency programs.
- Prepayment penalties for only the first 10 years.
- Non-recourse and assumable.



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