Multifamily Lenders Highlight Challenges During Coronavirus Crisis

On-the-ground issues may keep liquidity from flowing into the market.

By Christine Serlin, Affordable Housing Finance, March 23, 2020

The situation for the affordable and market-rate lending environment remains very fluid during the nation's coronavirus outbreak, and it's changing hour by hour, not even day by day, says Don King, executive vice president and head of the Multifamily Finance Groupat Walker & Dunlop.

"A lot of sponsors are anxious to take advantage of the low interest rates so we have seen an uptick in calls, interest, and potential activity," says Philip Melton, executive vice president and national director of affordable and Federal Housing Administration lending at Bellwether Enterprise. "At the same time, we have concerns."

One of the big roadblocks for lenders is on the ground, with shelter-in-place orders, lockdowns, and social distancing affecting physical inspections and third-party vendors doing on-site work.

"Right now we are struggling with how to prudently lend when we can't get in to inspect units," King says. "How do you prudently assess risk?"

He adds that it's a problem his firm is trying to solve. At a property inspection earlier this week, an engineer used Facetime to connect with the underwriter to go through a unit. Melton and King say another concern relates to recording documents, with municipalities cutting services and employees working from home. King says about 88% of counties in the country allow for electronic filing and recording of mortgages, but only 20% to 25% of those are automatic, with the remainder requiring someone on the other side to get the e-documents to record.

"The broader problem is we won't be able to record the sale of a property or mortgages in jurisdictions that completely shut down," King says. "We can't make a loan if they can't record the mortgage unless we can find a workaround for this situation."

Buzz Roberts, president and CEO of the National Association of Affordable Housing Lenders, says he is also concerned about ongoing construction projects, which could be disrupted by labor, material, and transportation shortages. And with local government processes being disrupted, getting zoning and building permit approvals and progress inspections will be difficult.

Also top of mind is the effects the coronavirus will have on renters whose jobs have been impacted by the crisis.

"We are concerned first about the renters and homeowners who may be losing income and unable to pay their rent and mortgages. Beyond the personal hardship for these residents, rental property owners and lenders need to receive those payments so they can meet their own obligations," says Roberts. "In addition, it could be hard for property owners to keep staff on-site and deliver supportive services to the elderly, disabled, and other renters with special needs."

Melton adds that while there are opportunities to create potential savings by refinancing or restructuring existing debt and increasing cash flow to properties with the low rates, there will be additional factors that lenders will have to address through the underwriting process.

"Be in communication with your lender. The more information you can provide for what you're doing for residents, we can take all of that into consideration as we are underwriting," he says. "We are going to have to make decisions that are based on a short-term concern while at the same time looking at the long term to create lending and financing opportunities for our sponsors."

In addition, Melton says lenders will be asking more questions about quarantine, emergency, and operational plans to get an understanding of what operators are prepared to implement at their properties.

King adds if a sponsor is trying to finance a deal now and has an option on the table, then they should take it. "Don't worry about if the spread is 10 basis points higher than you wanted. You might not have the deal tomorrow."