

# FINANCING YOUR MULTIFAMILY PROPERTY

AN INSIDER'S GUIDE FOR  
LOANS STARTING AT \$1M



WALKER & DUNLOP

## Growing Your Portfolio | Six Key Sources of Capital

When it comes to financing your apartment property, there is no shortage of sources to choose from. Most people immediately think of banks when they think of financing, but the market has evolved and there are a lot of other sources. Not knowing your options can result in you leaving money on the table. Picking the right financing option is critical to your success. We're here to help you understand your options so you can determine the best one for your financing needs.

### Six Primary Financing Solutions



#### Fannie Mae & Freddie Mac (aka "The Agencies")

When we say "agency lending", we're talking about Government-Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac. These two are lesser-known players in the small balance space, but they're quickly gaining more market share.

Many people don't know Fannie Mae and Freddie Mac offer desirable financing terms, including long-term, non-recourse, maximum leverage, fixed-rate loans for smaller apartment properties. They lend across a variety of property types, including manufactured housing, affordable, mixed-use, conventional, and green.

Because their mission is to help provide workforce housing, the agencies have a government mandate that requires them to provide liquidity to the market at all times – regardless of economic or geopolitical factors. Pricing may change circumstantially, but unlike other players that may pull back in the face of uncertain market conditions, Fannie Mae and Freddie Mac will remain consistent.

To secure an agency loan, a prospective borrower must go through an authorized agency partner, also known as a direct lender. There are a limited number of agency partners that you can work with, Walker & Dunlop being one of them. This is an attractive program if your property qualifies.



#### Banks

Bank lending has historically been the most common way to secure a loan. Banks provide multifamily loans throughout the U.S., each with a lending program unique to the scope of their business practice. Banks are licensed to provide loans only within certain regions, and unlike the other sources, they typically require recourse, which means your personal assets are on the line.



#### Life Insurance Companies

Life insurance companies are another option for financing your small apartment property with their longer loan term options, large loan sizes, early rate lock options, and competitive interest rates. However, when it comes to leverage and cash-out refinancing, they are less competitive. They are also a bit more selective and gravitate toward higher quality assets in major markets.



#### Commercial Mortgage-Backed Securities (CMBS)

CMBS are fixed-income investment products that are backed by mortgages and provide liquidity to real estate investors and commercial lenders. CMBS loans are available to a wide range of borrowers, including those that may be excluded from traditional lenders due to poor credit, previous bankruptcies, or strict collateral or net worth requirements. They offer high leverage, non-recourse loans, however, CMBS loans can be difficult to pay off early and the post-closing requirements are more stringent.



#### FHA (Federal Housing Administration)

FHA offers major benefits, including non-recourse, high leverage, longer term, attractive pre-payment penalty, and low rates. While FHA loans have their benefits, they are also often misunderstood. People mistakenly believe that loans are only available for low-income housing, nonprofits, and affordable housing projects, but this is not the case, and many market-rate borrowers may be missing out.



#### Walker Private Lending

Walker & Dunlop has partnered with Kayne Anderson Real Estate to create Walker Private Lending, a proprietary non-recourse lending program offering full-term interest-only, prepayment flexibility, and floating-rate options. Underwritten, closed, and serviced by Walker & Dunlop, Walker Private Lending promises certainty of execution and a seamless end-to-end experience for loans starting at \$2M.

# Exploring Your Financing Options: Ten Critical Considerations

The source that you pick should have advantages that align with your investment strategy. What's important to you? There are more considerations than just interest rates or terms that you must take into account when selecting a financing source. We compiled a few questions to help you narrow it down.

## 1 **Is your property “affordable”?**

Many owners and operators miss the opportunity to receive competitive Fannie, Freddie, or FHA financing because of misconceptions about what qualifies as “affordable.” People in the industry think of affordable as purely Section 8 or very low-income housing, but in reality, if you're renting to workforce tenants – policemen, firemen, teachers, construction workers, etc. – your property is likely to qualify as affordable. This means you're eligible for significant discounts from Fannie Mae or Freddie Mac. Additionally, if you have a green-certified property or are planning to make eco-friendly improvements, you may also qualify for exceptionally competitive rates and terms. You could save up to half a percentage point depending on agency missions. Agency might be one of your better options, so don't miss out on this opportunity.

## 2 **Are you willing to put your personal assets at risk for the loan?**

If putting your personal assets on the line is a concern of yours, then a non-recourse loan is the way to go. With a non-recourse loan, you cannot be held liable if you default. For example, if for some reason you fail to make payments, the lender can seize the property, but cannot go after personal assets as further compensation. All of the sources offer non-recourse; although, it is far less common with banks.

## 3 **Are you planning to hold long-term?**

If you'd like to have a long-term mortgage, FHA may be the way to go. They offer the longest term of 35 years. Fannie Mae, Freddie Mac, and life insurance companies offer mortgages up to 30 years. If you'd rather hold for a shorter span, Walker Private Lending and banks offer the shortest term of three years, while Fannie Mae, Freddie Mac, and CMBS offer as little as five.

## 4 **Are you looking to maximize cash-flow through interest-only payments?**

Interest-only has its pros and cons – it can initially lower your monthly payment, but once principal kicks in, it has the potential to significantly increase it. All financing sources can provide interest-only options, but banks can be a little more challenging (depending on the institution).

## 5 **Need cash-out proceeds to make property investments?**

Some owners find it beneficial to refinance their property for a larger amount than the current loan balance and use that cash for property improvements or updates. All of the sources provide cash-out financing options, but life insurance companies are the most conservative on that front.

## 6 **What's your track record? First-time owner or experienced?**

If you're a first-time owner, you'll want to get financing from the bank. Fannie Mae, Freddie Mac, Walker Private Lending, and FHA have higher standards and require either personal ownership experience or employment history in the multifamily investment industry. If your ownership track record exceeds two years, you may qualify. While life insurance companies and CMBS fall into this same bucket, their requirements are generally less strict.

## 7 **What are you looking to do? Construct, renovate, acquire, or refinance?**

If you're looking to construct or renovate, banks are the top option. If renovations can be completed quickly, Fannie Mae, Freddie Mac, Walker Private Lending, life insurance companies, and CMBS are another great option. However, if many units in a property are going to be offline while the renovation is occurring, the best bet is a bank.

If you're looking to acquire or refinance, all lenders offer competitive options. The amount of time it takes to close during an acquisition is an important factor. If you need a quicker turnaround for financing, banks, Fannie Mae, Freddie Mac, Walker Private Lending, life insurance companies, and CMBS would be the way to go. FHA takes a longer time and may not be the best option if a quick close is necessary.

## 8 **Want to control your operating accounts and deposits?**

Banks generally require depository relationships in order to lend, so when you get a bank loan, you are typically required to maintain an operating account. There is often a minimum amount that needs to be maintained in the operating account. In cases where the minimum is not met, banks often have the right to increase your interest rate to make up for it.

The other lending sources do not require a depository relationship, but they may require escrows or reserves of some sort, but those terms can be flexible depending on the strength of the deal and nature of the request or leverage.

## 9 Do you own a specialized multifamily asset such as manufactured housing or capital “A” Affordable?

Fannie Mae, Freddie Mac, Walker Private Lending, and FHA have specific programs for some of these specialized asset types and understand their nuances inside and out. This can eliminate a lot of questions or headaches that arise because they know what to anticipate and how to resolve common issues, saving you time and money.

## 10 Where is your property located?

Where your property is located can determine which source you should choose. Is your property in the same state as you or the state in which your bank operates? Or do you plan to expand your portfolio beyond state lines? Banks may have restrictions on where they can lend, and if they’re not licensed in the location of your property, they may not be able to help.

Fannie Mae, Freddie Mac, Walker Private Lending, FHA, life companies, and CMBS lend anywhere in the U.S. Some have different appetites as far as population or market goes. Some lenders are only comfortable lending in the top 25 markets or markets with larger populations. Your lender can provide additional information specific to your property’s location.

## DIRECT LENDER VS. INTERMEDIARY

When it comes to securing financing for your property, you can work with either a direct lender or intermediary (otherwise known as a mortgage broker). Each option has its pros and cons.

### DIRECT LENDER

A direct lender is able to work directly with borrowers and can generally approve, underwrite, and fund the loan in-house. Borrowers can access the following financing sources via a direct lender.

FREDDIE MAC	✓
FANNIE MAE	✓
WALKER PRIVATE LENDING	✓
FHA	✓
BANKS	✓

*Walker & Dunlop is a direct lender for Fannie Mae, Freddie Mac, Walker Private Lending, and FHA. We have robust and exclusive relationships with life insurance companies, CMBS lenders, and banks.*

### INTERMEDIARY

Intermediaries act as a bridge between lenders and borrowers, helping lenders find new opportunities and borrowers explore a variety of lending options at one time. Borrowers can access the following financing sources via an intermediary.

CMBS	✓
LIFE INSURANCE COMPANIES	✓

*Intermediaries can access Freddie Mac, Fannie Mae, and FHA loans, but they must work through a direct lender like Walker & Dunlop. Some intermediaries may also work with banks to help arrange bank financing.*

## Pursuing Options That Align With Your Strategy

Banks are considered a primary lending source in the market today, but other options exist that may align better with your investment strategy. It’s critical to know your options or you may be leaving money, flexibility, or better terms on the table.

## Compare & Contrast | Lending Matrix

Looking for even more details? We've pulled together a comprehensive matrix comparing the various forms of financing.

### APARTMENT FINANCING | Stabilized Market Rate Financing Comparison Guide

PLATFORM	FANNIE MAE	FREDDIE MAC	FHA HUD 223(f) Market Rate Program	BANKS	LIFE INSURANCE COMPANIES	COMMERCIAL MORTGAGE- BACKED SECURITIES	WALKER PRIVATE LENDING
Available Rate Type	Fixed, Floating (ARM), Hybrid	Fixed, Floating, Hybrid	Fixed	Fixed, Floating, Hybrid	Fixed, Floating	Fixed	Floating
Minimum Loan Size	\$1M	\$1M	Generally most competitive \$3M+	Varies	Limited availability \$2-10M, \$10M+ preferred	\$5M	\$2M
Leverage	Up to 80%	Up to 80%	Up to 85% (80% if cash out)	Up to 75%	Typically up to 70%	Up to 75%	Up to 70%
Allows for Cash Out Refinance	Yes	Yes	Yes	Yes, Limited	Yes, Limited	Yes	Yes
Minimum Debt Service Coverage Ratio (DSCR)	1.25x	1.25x; top markets 1.20x	As low as 1.176x	1.25x	1.35x	1.25x	1.05x (interest-only based on max note rate)
Term	5 to 30 years	5 to 30 years	Up to 35 years	3 to 10 years	5 to 30 years	5 or 10 years	3-7 years
Interest Only	Available	Available	Fully-Amortizing	Available	Available	Available	Full Term by Default
Prepayment Provisions	Yield Maintenance & Stepdown	Yield Maintenance & Stepdown & Defeasance	Yield Maintenance & Stepdown	Swap Breakage & Stepdown	Yield Maintenance	Defeasance	1% Exit Fee + Minimum Interest
Amortization	30 years	30 years	Up to 35 years (fully-amortizing)	30 years	25 to 30 years, depending on leverage	30 years	N/A - Interest-Only
Guaranty	Non-recourse except for standard carve-outs	Non-recourse except for standard carve-outs	Non-recourse except for standard carve-outs	Typically full-recourse or limited/ springing recourse	Non-recourse except for standard carve-outs	Non-recourse except for standard carve-outs	Non-recourse except for standard carve-outs
Cash Management Triggers	No	No	No	No	No	Yes	No
On-going DSCR Tests	No	No	No	Yes	No	Yes	No
Required Operating Account	No	No	No	Yes	No	No	No
Lifetime Servicer	Walker & Dunlop	Walker & Dunlop	Walker & Dunlop	Typically Third Party	Typically Walker & Dunlop	Third Party	Walker & Dunlop
Loan Assumable	Yes	Yes	Yes	No	Yes	Yes	Yes
Supplemental Loan	Yes, after one year	Yes, after one year and original loan amount must be greater than \$7.5M	May be permitted for property improvements	N/A	N/A	N/A	No
Borrower Exposure Limits	No	No	No	Yes	No	No	No
Tax Returns Required for Underwriting	Not Required	Not Required	Not Required	Required	Not Required	Not Required	Not Required

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## Walker & Dunlop Small Balance Experts

No matter where in the U.S. you need a loan, we are here for you. Our multifamily experts can help you understand the trends and rates in your area and recommend the best financing options to suit your investment strategy.

To check rates or request a quote, [visit our website.](#)