Freddie Mac Announces Financing Initiative to Preserve Rental Affordability

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Mezzanine Loan preserves long-term affordability without subsidies

MCLEAN, Va., Aug. 07, 2018 (GLOBE NEWSWIRE) -- Freddie Mac (OTCQB: FMCC), the leading multifamily financier in the United States, today announced an innovative financing initiative that will incentivize multifamily property owners to keep rents at levels affordable to working families without any federal, state or municipal subsidy. Freddie Mac Multifamily's new Mezzanine Loan pilot provides favorable pricing and additional debt capital in exchange for multifamily property owners voluntarily keeping a majority of rents at levels affordable to low- and moderate-income families, while limiting rent growth throughout the life of the loan.

"Once again, Freddie Mac Multifamily is using its industry leadership to find creative ways to create and preserve rental units that are affordable to working families in communities across the United States," said David Brickman, executive vice president and head of Freddie Mac Multifamily. "The Workforce Housing and Targeted Affordable Mezzanine Loan offerings provide low-cost financing that incentivizes property owners to keep units affordable for working families, while limiting rent growth over the term of the loan. At a time when rents continue to price families out of markets, this initiative gives us the opportunity to test a new solution to a persistent challenge. Simultaneously, it delivers the speed, efficiency and certainty of execution that is synonymous with Freddie Mac."

Mezzanine financing effectively operates as a subordinate loan, delivering additional debt capital necessary to fill in the gap between borrower equity and the first lien mortgage loan amount. Under Freddie Mac Multifamily's Mezzanine Loan offering, borrowers receive favorable pricing on the Mezzanine Loan in exchange for voluntarily limiting rent growth on 80 percent of the units in the property— keeping them at levels considered workforce housing for the life of the loan. Rents will be checked on an annual basis and property owners out of compliance will be assessed a penalty fee until they return rents to compliant levels.

The Mezzanine Loan is available through Freddie Mac Multifamily's Conventional platform for workforce and affordable housing in traditional financings. It is also available through its Targeted Affordable Housing platform for refinancing or acquiring Section 8 properties and year 11 or later Low-Income Housing Tax Credit (LIHTC) properties, or repositioning any affordable property for resyndication with a new allocation of LIHTCs. In both instances, the Mezzanine Loan is originated simultaneously with a Freddie Mac first mortgage loan in a streamlined, single-source process.

Under the criteria of the program, the Mezzanine loan-to-value (LTV) ratio can only be 10 percent above the LTV of the Freddie Mac first mortgage loan — or up to 15 percent for experienced nonprofits with a history of successful multifamily property operations. The total combined LTV cannot exceed 90 percent.

Brickman added, "This offering brings our innovative approach to market challenges together with our best-in-class execution to deliver affordable housing to every corner of the multifamily market. Most important, it has the potential to help address challenges of access and affordability for working families across the country."

This financing initiative continues Freddie Mac's efforts to find new ways to increase the creation and preservation of affordable housing without solely relying on restrictions imposed by federal, state and municipal governments. Last May, Freddie Mac announced the first transaction as part of its social impact focus with Bridge Investment Group – where Freddie Mac used its existing product set in an innovative way to provide discounted pricing to incentivize borrowers to voluntarily reduce or maintain rents at levels affordable to low- and moderate-income tenants earning between 60 percent and 80 percent of area median income.

Freddie Mac Multifamily is the nation's multifamily housing finance leader and the leading funder of affordable housing in the United States. Historically, nearly 90 percent of the eligible rental homes we fund are affordable to families with low to moderate incomes. Freddie Mac's Duty to Serve plan aims to expand affordability and address America's most persistent housing problems.

Freddie Mac makes home possible for millions of families and individuals by providing mortgage capital to lenders. Since our creation by Congress in 1970, we've made housing more accessible and affordable for homebuyers and renters in communities nationwide. We are building a better housing finance system for homebuyers, renters, lenders and taxpayers. Learn more at FreddieMac.com, Twitter @FreddieMac and Freddie Mac's blog FreddieMac.com/blog.

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