Highlights of the 2009 Commercial Mortgage Banker's Association conference

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This year's Commercial Real Estate Mortgage Bankers conference was held last month in San Diego, Calif. Unlike previous years conferences, this year's event reflected the mood of the nation as the realities of the capital market meltdown and the economic slow down weighed on the spirit of the attendees.

In spite of the doom and gloom, there were several positive aspects to note. Both government sponsored enterprises (GSE), Fannie Mae and Freddie Mac, reported outstanding, record breaking, multifamily volume in 2008. Even under conservatorship, the GSEs reported close to $60 billion in multifamily originations for the year. This represented almost nine out of ten multifamily loans closed in the nation. Multifamily remains the bright spot for the GSEs as the single family residential markets continue to generate losses.

During a panel discussion at this year's MBA conference, both Fannie Mae's Phil Webber, senior VP, and Freddie Mac's Michael May, senior VP, agreed that the conservatorship has helped the multifamily side of their respective GSEs.

"Prior to conservatorship, Freddie Mac was in a lock down mode: we were in the process of tightening our belt and surviving the storm. We were not deploying capital," May said.

Fannie Mae's Webber agreed, stating, "We stayed in the game, and in a weird way we prospered, bringing new products and innovations to the market. It was the right thing to do."

With capital being scarce and lenders becoming more conservative, several new lending programs were announced at the conference. Private debt funds have emerged providing loans specifically designed for "take out" financing for maturing Commercial Mortgage Backed Security Debt (CMBS). These bridge loans provide a two to three-year term, are interest-only and are priced over LIBOR. These pricey bridge loans are designed to give borrowers time to seek out acceptable long-term permanent financing to pay off maturing CMBS debt. The hope and premise for these transactions is that the capital markets will improve during the next few years.

Another new program introduced during the conference came from the Federal Housing Authority and HUD. On February 6, HUD issued a mortgage letter which waived a rule that a property must wait three years following being built or rehabilitated in order to qualify for HUD's 223(f) refinance program. The waiver of the "Three-year Rule" will benefit borrowers who are having difficulty obtaining permanent financing due to the current market's lack of liquidity and the current freeze in the capital markets. All the features of HUD's 223(f) program will be available under the program including terms and amortizations of up to 35 years. HUD plans to keep this program in place for six months. After that period of time, the program will be reevaluated for its effectiveness.

Another innovation in the multifamily market is being offered by several life insurance companies. Whereas Freddie and Fannie have seasoning requirements for occupancy before loan funding,

typically 90% for 90 days, these life companies can fund new projects when they have reached as little as 70% occupancy levels. This can be an excellent way to lock in rates early and re-coop investment dollars without waiting for higher occupancy.

As the commercial real estate markets continue to adjust to the new realities of commercial real estate credit, it is anticipated that more new lending products and programs will be introduced. Some of these programs will be pricey, others more conservative. Together they will represent the cornerstone for market conditions in 2009.

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