

Keeping Up With A Changing Freddie Mac

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Rushing's discussion of Freddie Mac multi-family financing. At approximately the time that the article

The Federal Home Loan Mortgage

Corporation, better known as Freddie Mac, purchases loans from lending institutions (referred to below as "seller/servicers") and sells securities backed by these loans in the capital markets. The organization has been an active participant in both the single-family and multi-family mortgage markets in recent years. Now Freddie Mac is re-evaluating its multi-family program. One major change has already been enacted: the agency recently reduced the maximum permitted loan-to-value (L/V) ratio for non-recourse multi-family loans from 80% to 60%. One reason for this change has been an alleged decline in property values on the East and West coasts. Another reason is the agency's un-

favorable loss experience; while multi-family lending constitutes a relatively small percentage of Freddie Mac's business, it accounts for a relatively large percentage of losses. Clearly, the new, more conservative standard will reduce significantly the number of multi-family loans that Freddie Mac purchases, and the losses it sustains through multi-family lending.

Freddie Mac is considering two additional changes as well. One would allow originators to sell loans with L/V ratios between 60.01% and 70% to Freddie Mac with recourse. If the borrower defaulted, Freddie Mac would have the right to collect from the seller/servicer; that is, the seller/servicer would essentially guarantee the borrower's payments. It is not certain that such a plan would be greeted enthusiastically; if loan prices did not adjust to reflect added risks, the seller/servicers would gain no advantage in selling loans while retaining default risk. A seemingly reasonable solution would be for the seller/servicer to retain recourse against the borrow-

er. However, there is a legal limit to the amount of recourse credit that a lender can extend to one borrower. Nonrecourse loans are not limited in this manner (underwriting tends to be stricter on such loans), so a nonrecourse arrangement would allow the lender to do additional business with the borrower.

The second change being considered would allow for multi-family loans in the 60.01% - 70% L/V range to be sold to Freddie Mac as participation repurchases. Under the participation repurchase program, the seller/servicer would sell the majority of a loan, perhaps as much as 90%, to Freddie Mac. The seller/servicer would retain ownership of the remaining portion for some period, perhaps as short as 18 months, after which Freddie Mac would buy that remainder. The program would p

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