

Explore the Freddie Mac Fast Track

TAH Express streamlines the process and costs of securing affordable-housing financing

By Joshua Reiss

Cities around the United States have been suffering from a housing-affordability crisis for a number of years. The gap between the supply of and demand for affordable housing has been growing as the costs of land and construction rise.

The current annual housing shortfall nationally is some 400,000 units, even after taking into account single-family construction starts, according to Freddie Mac research. To make matters worse, the existing affordable-housing stock is often in dire need of improvement and substantial renovations.

Although it is clear that there is already a significant shortage of affordable housing across the country, the recent tax reform threatens to exacerbate the problem by reducing the value of low-income housing tax credits, the single largest capital subsidy in the affordable-housing business. This act has diminished a substantial incentive for developers to undertake the expense and regulatory challenges of building targeted affordable housing.

To help address this widespread problem and remove some of the roadblocks facing affordable-housing owners and investors, Freddie Mac announced a new Targeted Affordable Housing (TAH) Express program in October 2017 and officially launched it this past April. The program intends to change the way that smaller-balance cash-preservation loans are implemented by providing borrowers with more choices, better terms and, notably, a fast and simpler loan process. For commercial mortgage brokers, TAH Express is a great option to present to clients interested in owning and preserving affordable housing.

TAH Express defined

TAH Express is an extension of Freddie Mac's existing TAH program, which provides loans for properties in underserved areas that are affordable to families with low and very low incomes, including cash loans, bond credit enhancements, tax-exempt loans and more. As opposed to naturally occurring affordable housing or workforce housing, targeted affordable housing means the property has rent or income restrictions in place to maintain affordability for an extended period.

Through the TAH Express program, borrowers benefit from a condensed prescreening process, simplified nonnegotiable legal documents and a standardized underwriting process, resulting in lower transaction costs. TAH Express also offers a "step-down" prepayment option, which provides more flexibility in the prepayment of these smaller loans.

TAH Express is available for acquisition or refinance loans nationwide, offering loan amounts up to \$10 million in all markets. Borrowers are encouraged to have experience operating an affordable multifamily property. The net worth of the borrower must be equal to the loan amount, with liquidity equal to nine months of principal and interest.

The property must be stabilized at or above 90 percent physical occupancy for the trailing three-month average prior to underwriting in most cases, according to Freddie Mac's description of the program. The property may be stabilized at 85 percent physical occupancy for the trailing three-month average prior to underwriting, however, if the property has been built or renovated recently in a top market, is composed of fewer than 30 units, or if the deal meets certain other conditions.

Among those conditions are the following: no history of serious crime at the property, no history of volatile occupancy swings with the property, and that the acquiring owner and new management are considered "sophisticated" relative to the current ownership.

Loan options

Loans can be five-, seven-, 10-, or 15-year fixed-rate loans, or five-, seven-, or 10-year floating-rate loans with 30-year amortization. Currently, Freddie Mac mainly offers partial-term interest-only loans, but a full-term interest-only option may be available in strong markets. All loan types are eligible for a declining prepayment-penalty schedule and yield maintenance.

Subordinate debt is permitted, subject to a non-negotiated Freddie Mac subordination agreement, and acceptable subordinate lenders are limited to governmental entities, community development financial institutions and non-profits. All loans are nonrecourse with standard carve-out provisions required.

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Freddie Mac created TAH Express to serve the multifamily market. Uncapped, stabilized multifamily properties with one or more of the following affordable characteristics are eligible for TAH Express:

- **Low-income housing tax credit**, or LIHTC, properties in at least year 11 of their compliance period.
- **Buildings with long-term** Housing Assistance Payments, or HAP, contracts.
- **Buildings with regulatory** agreements that impose rent or income restrictions.
- **Buildings with** tax abatements.
- **Buildings with** Section 8 vouchers.

Properties located in “small” or “very small” markets, per Freddie Mac’s market-tiering list, may be subject to additional restrictions. Ineligible properties include senior housing with resident services, student housing, military housing, LIHTC properties with land-use restrictive agreements in compliance years one through 11, Historic Tax Credit properties with a master-lease structure, tax-exempt financing and rehabilitation financing.

Program impact

The TAH Express program is likely to have a resounding, positive impact on eligible borrowers seeking loans to acquire affordable-housing properties, with long-term effects on maintaining the existing supply of affordable housing expected down the line. Investors will have greater ability to acquire and preserve affordable housing, both in large markets and

underserved areas, because of the reduced transaction costs and greater access to capital.

As a result of the flexibility offered within the TAH Express program, investors also will be better able to tailor the loan-term and pre-payment structure to better fit their business plans. In particular, smaller investors seeking to grow their portfolios stand to benefit.

That is because the TAH Express program offers superior pricing and longer-dated loan terms than what might be available from local banks and credit unions. The Freddie Mac loan program helps to level the playing field between the larger and smaller players in the market by allowing more borrowers to have easier access to funding.



TAH Express has the potential to have a substantial social impact by giving investors the tools they need to maintain and preserve the existing supply of high-quality, affordable-housing stock nationwide. TAH Express addresses some of the challenges affecting borrowers seeking loans by streamlining the process and making it less expensive.

In turn, this reduced processing time will allow for much-needed housing to be built more quickly. For mortgage brokers, being well-versed in this program will provide a significant value-add opportunity, not just for borrower clients, but for those who need affordable housing the most. ■