

Agency Lending Surged in 3d Quarter

After a slow first half, **Fannie Mae** and **Freddie Mac** dramatically stepped up their purchases of multi-family loans in the third quarter.

The two mortgage agencies acquired \$16.2 billion of apartment mortgages from July to September, eclipsing their \$15.3 billion of purchases in the entire first half.

The surge enabled the agencies to reduce the shortfall from last year's activity. At midyear, purchases were down a whopping 48% from a year earlier. But through three quarters, Fannie and Freddie were running only 22% behind.

Lenders attribute the volume jump to a more aggressive approach by the agencies that has shifted the competitive balance, coupled with an overall jump in borrowing fueled by a drop in interest rates.

At the start of the year, insurance companies, banks and commercial MBS programs were taking market share away from the agencies. "The overall trend in the market was very aggressive at that point," said one lender who originates Fannie and Freddie loans. "The agencies were left standing at the starting line. They heard it from [their] lenders and had to adjust expectations to how competitive they needed to be."

Fannie purchased only \$3.5 billion of loans in the first quarter, down from \$8.2 billion a year earlier, while Freddie acquired just \$3 billion, down 50%. Activity was also down sharply in the second quarter.

David Brickman, a Freddie executive vice president who heads multi-family lending, called the first quarter one of the slowest in recent years. He attributed the light volume in "equal parts" to a reduction in both overall lending and Freddie's own participation. "There was very strong competition from banks, in particular, and life companies right out of the gate," he said.

Some market pros said a turning point came in May when the **Federal Housing Finance Agency**, which regulates Fannie and Freddie, ended ongoing uncertainty by announcing that it wouldn't further reduce the cap it had set on their loan purchases. The regulator had ordered a 10% reduction in 2013 as part of an effort to boost private-sector lenders.

"Fannie and Freddie were way, way behind, [but] now there was more flexibility to make deals," said one lender.

More recently, the mortgage agencies have offered borrowers more-favorable terms, enabling them to take back market share.

Meanwhile, the drop in Treasury yields, which in turn has reduced loan rates, has fueled overall borrowing. "Treasury's have a huge amount to do with it," said one agency lender. "There has been an acceleration of deals getting signed."

Brickman said Freddie is now "a little more aggressive, but very much still pursuing our core [mission]. We've been able to identify good deals that may in one attribute or another look riskier, but actually we think are high-quality loans."

Both agencies have tweaked their guidelines and products. For example, in May, Freddie eased restrictions on financing recently built complexes that aren't stabilized. And this month, the agency rolled out a program targeting small-balance loans.

Fannie last year decided to increase its focus on certain markets, including Nashville and Orlando. The impact of that change began to be reflected in Fannie's volume around the middle of this year, said **Hilary Provinse**, a Fannie vice president.

She also noted an overall pickup in borrowing demand over the past few months. "There was more of a willingness to commit to acquisitions," she said, adding that "the message we want to send to the market is, we're going to continue to be aggressive to win deals."

Fannie purchased \$9.1 billion of multi-family loans from July to September, up from \$5.8 billion a year earlier. Through September, it had \$17.3 billion of purchases, down from \$21.8 billion in the first three quarters of last year. Freddie acquired \$7.1 billion in the third quarter, up from \$5.3 billion a year earlier. For the first nine months of the year, it had \$14.2 billion of purchases, down from \$18.8 billion.

The agencies are expected to have active fourth quarters, but are unlikely to match their 2013 totals — \$28.8 billion for Fannie and \$25.9 billion for Freddie.

The relative market shares of the mortgage agencies and private-sector lenders ebb and flow based on a variety of factors. In the peak years of 2005-2007, Freddie and Fannie accounted for about 20% of multi-family mortgage originations, according to the **Mortgage Bankers Association**. But in 2009, at the depths of the recession when many private-sector lenders were on the sidelines, their combined share soared to 59%. It fell to about 28% last year and to about 25% in the first half of this year. Figures for the third quarter still aren't available. ❖