Regulators Ease Constraints for Borrowers During These Turbulent Times

By: SJ Ayoub

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To say a lot has happened over the last couple of weeks would be a huge understatement. The worldwide pandemic is playing out like a Hollywood movie. The outbreak started in China but quickly spread across the globe. The first case of Coronavirus Disease 2019 (COVID-19) in the United States appeared in Seattle, Washington, on the 21st of January. On March 2nd 100 cases were reported. That number increased to 1000 by March 11th. By March 21st the number of cases surpassed 16,000. Today that number is just under 150,000 confirmed cases. It's almost too hard to wrap your head around.

As a result, the world has entered a global recession once again. The good news is, unlike 2008, the US Federal Government moved quickly to keep the entire house of cards from falling. Here are a few of the major steps the Administration took to thwart a widespread health pandemic and the sub-sequential financial meltdown:

- March 6th, Congress enacted the Coronavirus Preparedness and Response Supplemental Appropriations Act. The bill provided emergency supplemental appropriations in the amount of $8.3 billion to jumpstart coronavirus vaccine research and development.

- March 9th, the Federal Reserve Board, the regulatory agencies, and state bank regulators issued a statement to encourage financial institutions to meet the financial services needs of their customers and members in areas affected by the Coronavirus.

- March 13th, a national emergency was declared.

- March 18th, the President signed the Families First Coronavirus Response Act, a $104 billion package that provided funding for a 14-day paid leave for American workers affected by the pandemic, free coronavirus testing, and increased funding for food stamps.

- March 19th, statewide lockdowns began to be enforced.

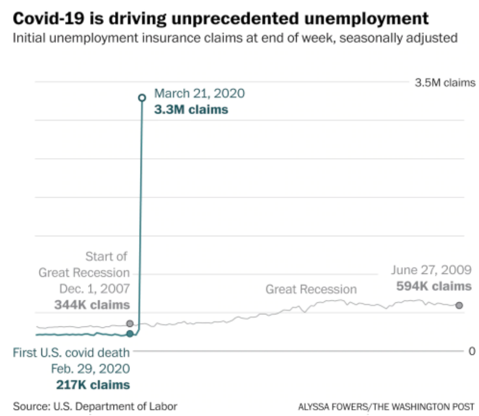
- **On March 23rd**, The Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), the Consumer Financial Protection Bureau (CFPB),and the State Banking Regulators issued an interagency statement to provide information to financial institutions working with borrowers affected by the outbreak.

- **On March 25th**, the Senate unanimously passed the $2 trillion Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Two days later the bill passed the House, via voice vote, and was signed by President Donald Trump that same day.

At this point you might be asking yourself, *so what does all this mean? How will this affect me, as a multifamily owner/operator?* To answer that we'll drill down into the last two bullet points.

Over the last few weeks, there had been a growing concern about the severe illiquidity in agency Commercial Mortgage Backed Securities (cMBS). With the Administration's warning of a health pandemic on the horizon, financial analysts were forecasting the onset of a nationwide shutdown to contain the spread of the virus. The underlying message was: 'Loans are about to default.'

On March 19th, the government released the first round of Social Distancing Guidelines. Gatherings were to be restricted in size to 50 people or less. Entertainment venues, restaurants, schools shut down overnight. Many people became "unemployed" instantly. One week later, the Labor Department reported 3.3 million Americans applied for unemployment benefits, eclipsing the weekly record of 695,000 set in 1982. With the CMBS market grinding to a halt a solution had to come to fruition and fast. Enter the Fed.



Chair of the Federal Reserve, Jerome Powell, gave a simple explanation about why the Fed stepped in:

> *"We may be entering a recession…Many places in the capital markets, which support borrowing by households and businesses -- I'm talking about mortgages and car loans and things like that -- have just stopped working. So, we can step in and replace that lending under our emergency lending powers."*

The Central Bank's decision to buy an unlimited amount of MBSs has helped prop up the government-backed agency market. To outline the Bank's position, an interagency statement was released on the 23rd providing supervisory guidance to Federally insured banks. The underlining message was the agency's temporary change of position on loan modifications. It stated, "The agencies view loan modification programs as positive actions that can mitigate adverse effects on borrowers due to COVID-19. The agencies will not criticize institutions for working with borrowers and will not direct supervised institutions to automatically categorize all COVID-19 related loan modifications as troubled debt restructurings (TDRs)."

Additionally, Congress passed the $2 trillion Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Keeping with this audience, the act has three key points:

1. **Multifamily Loan Forbearance**. Under the act, multifamily landlords, whose properties are financed with an agency loan that is current, can defer their loan payments for 90 days if they can show hardship due to COVID-19. Borrowers, who are considered current, are those that are less than 30 days past due on their contractual payments at the time a load modification is implemented. In turn, the agencies are requiring landlords not to evict, or charge late fees, during the forbearance period. Applicable mortgages include those on real property designed for five or more families that are purchased, insured, or assisted by Fannie Mae, Freddie Mac, or HUD.

2. **Expanded Unemployment Coverage**. Coverage has been expanded to include self-employed, independent contractors, and those with limited work history. It provides an additional $600 per week for each recipient and an additional 13 weeks of benefits to those who remain unemployed after state unemployment benefits end.

3. **Direct Taxpayer Payments**. Direct payments to individuals, based on income level, are slated to start in April. Payments of $1,200 per taxpayer with adjusted gross income up to $75,000

($150,000 joint filers). Payment amounts are reduced $5 per every $100 of adjusted gross income above the threshold and are completely phased at an adjusted gross income of $99,000 ($198,000 joint filers). An additional $500, per dependent, per household will be added to the payment.

The information is changing daily, but the reality is the government took the 2008 playbook and moved quickly to put it into action. The question is, will the stimulus last long enough to get us through the pandemic? Or will the government have to dig deeper to keep the fiscal system afloat?

If your interest in hearing more information, I invite you to a live one-hour webcast presented by Marcus & Millichap this Thursday April 2, 2020. Topics covered include:

- **Up-to-Date Economic Assessment**
- **Government Initiatives and Their Potential Impact**
- **State of the Real Estate Financing and Transaction Markets**
- **Challenges and Opportunities by Property Type**

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