



LUMENT

SETTING A NEW RECORD FOR SERVICE

With a 1031 exchange, the clock is always ticking. The coronavirus pandemic put many 1031 exchanges on pause — and even with an IRS extension, deals were coming down to the wire. Lument's Small Balance Loan team came through for a 1031 investor, rate-locking and closing the transaction within 24 hours of Freddie Mac's commitment, an extraordinary accomplishment by any standard.



THE CHALLENGE

Making the Deadline

With a 1031 like-kind exchange, timing is everything. In order for investors to defer capital gains and depreciation recapture taxes, they must complete the exchange within 180 days of selling their original property or by the due date of their tax return for the year of the original sale.

But by April, with the coronavirus closing major U.S. cities, the IRS realized that many investors, through no fault of their own, would miss these deadlines. Social distancing and sheltering-in-place mandates made it difficult for investors to reach agreements with sellers and pin down financing if purchasing a property of greater value. The IRS issued guidance granting investors an automatic extension to July 15 if their 180-day exchange period fell between April 1 and July 15.

Matt Frank's client, an experienced investor with a small apartment complex in North Hollywood, qualified for the extended deadline. The investor sold his eight-unit property in December 2019 — and working through a listing broker, identified an appropriate apartment nearby. Through a mortgage broker, he approached Lument to secure a **Freddie Mac** small balance loan. “The deal was unique in my experience because we never had any direct interaction with the buyer,” said Frank, a vice president in **Lument's** Phoenix, Arizona office and the deal's originator. “He was more comfortable working at arms-length.”

The deal was put under application with Freddie Mac on May 15, which gave the Lument team two months to close. Under normal circumstances, this would have been ample time. The pandemic threw up a series of obstacles. The challenge for the Lument team — underwriting, legal, closing, and pricing, as well as production — was to hit that deadline no matter what.



MATT FRANK
Vice President
Phoenix, Arizona





THE SOLUTION

Turning on a Dime for the Customer

During April and much of May, the multifamily market was essentially frozen as participants headed to the sidelines to assess the effects of sharply falling GDP and employment on their properties. Responsible for injecting stability and liquidity into the markets, the agencies did not have the luxury of reacting passively. During March, April, and May, their small balance loan teams worked long hours to devise forbearance guidelines for their existing loans and establish debt service reserves on small balance loans (SBLs) yet to be committed.

By May, many transactions that had been put on hold during the first months of the pandemic were revived, and, facing a flood of transactions, Freddie Mac notified its lenders that it had extended the turn-time for a full underwriting package from nine to 12 business days. In June, as volume receded to normal levels, it returned to its nine-day turn-time.

But the underwriting team led by **Dana Blair** was cautious. It submitted the package in ample time for a commitment no later than Friday, July 10, which would allow three full days the following week to rate-lock and close. “That was about the shortest time frame we could allow,” Blair said. “At least, that is what we thought at the time.”

But as June turned to July, it became apparent that the deal was going to come down to the wire. Because the live inspection of the exchange property was postponed because of social distancing mandates, approval required a higher signing authority at Freddie Mac. Friday passed by, and as the new week began, Blair was in regular communication with Freddie Mac. At last, at 6:36 p.m. on Tuesday evening, Freddie Mac approved the credit package and the deal was submitted to the loan committee.

Now it was up to the closing team to do the impossible: rate-lock and close in less than a day. **Vice President Polina Tsaliev** and **Assistant Vice President Leila Sugay**, working together with counsel, began an unprecedented effort to move the deal over the finish line. By 1:05 p.m. July 15, it had been rate-locked and by 5:45, it closed.

“I sent a major shout-out to all the parties involved in getting this closed,” Blair said. “If I didn’t know about all the hard work that went into making it possible, I would have called it a miracle.”

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THE IMPACT

Demonstrating the Power of Our Model

In simple terms the impact of the deal is easy to describe. The Lument team delivered a \$5.5 million 7/1 hybrid ARM to the 1031 borrower, as expected and on time. "It didn't matter to anyone that we didn't really know the borrower," Frank said. "We all worked behind the scenes to make sure that everything was dialed in so that when we got the commitment, we were ready to go. We understood that there was no margin of error."

Blair believes that the impact of the transaction goes beyond this particular deal and extends to the rest of Lument's customers. She noted that Tsaliev came to Lument from **Hunt Real Estate Capital** and was based in New York. Sugay came to Lument from **RED Mortgage Capital** and works in Orange County. "They worked flawlessly together, without regard to time zone or organizational background to deliver a level of service for a customer that previously had seemed impossible," Blair said. "This transaction truly demonstrates the power of our platform."

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