MAKING THE CASE FOR THE BORROWER

With COVID-19 outbreaks at skilled nursing facilities making financing of all seniors housing communities more difficult, the Lument team worked closely with Fannie Mae to get the agency comfortable with refinancing a well-established senior living community in Honolulu. But securing Fannie's approval was just the first step. The volatile environment required the Lument credit team to monitor the property closely and close as quickly as possible to ensure the borrower received the proceeds and interest rate it expected.

HONOLULU | HAWAII

SENIORS CASE STUDY

THE CHALLENGE

Making the Case for Seniors Housing

As the coronavirus pandemic began to take hold, the key principal of **MW Group**, a Hawaiian-based commercial real estate investment company, was watching interest rates fall. As a former investment banker, he did his own calculations. He understood that, if it acted to capture record low rates, MW Group would save millions in interest expenses on The **Plaza at Punchbowl**, one of six full-service premier senior living communities it owned in the Honolulu area. And while he was willing to pay substantial prepayment penalties on his existing Fannie Mae loan to make the switch, he wanted to rate lock as soon as possible, worried that rates might recover later in the year.

However, health issues raised by the pandemic were working against the borrower. Deadly COVID-19 outbreaks at skilled nursing facilities across the United States were making the agencies particularly cautious about financing seniors housing of any kind. In addition, shelter in place and social distancing requirements meant that communities like The Plaza at Punchbowl had stopped giving tours for prospective residents and their families, which meant that maintaining occupancy was a challenging task. Decline in occupancy, in turn, affected current income, which could diminish proceeds. Also, the agencies were concerned that the expiration of the CARES Act supplemental income provisions could indirectly impact seniors housing operations, further depressing occupancy.

MW Group needed a financing partner up to the challenge, one who could ease the agencies' concerns and then act quickly to lock in a favorable rate. The borrower had closed an agency deal with **Lument Managing Director Doug Harper** previously and gave him the opportunity to pitch the transaction to Fannie Mae. Having worked closely for years with **Andy Kitts**, managing director and chief underwriter for agency seniors housing at Lument, Harper was optimistic he could meet the borrower's requirements.

THE SOLUTION
Getting Fannie Mae on Board

Fannie Mae was also excited by the opportunity—and eager to retain the MW Group as a customer. Kitts and Harper worked with Fannie Mae's production team to confirm that the property met Fannie Mae's COVID-19 requirements so that it could offer waivers that would cement the deal. As part of its initial reaction to the pandemic, Fannie Mae decided to put streamlined rate locks on hold. In this case, it was willing to make an exception as long as leverage was no more than 60% LTV with a minimum 1.50 DCR. Even more important, the agency agreed to reduce its floor treasury rate yield, making it possible for MW Group to secure a more favorable rate. "Fannie Mae's responsiveness was the critical element in our winning the deal," Kitts said.

DOUG HARPER
Managing Director
Seniors Housing

ANDY KITTS
Chief Underwriter
Seniors Housing

> **"Fannie Mae's responsiveness was the critical element in our winning the deal"**
> ANDY KITTS

But signing the application on June 15 was only the start of a very tight race against time. MW Group needed to close the deal by the end of July to avoid overlapping loan payments the following month. The first challenge, therefore, was to complete the rate lock as soon as possible. "We made preparations for rate lock to occur before July 4 even though, at that point, we only had data for May collections," Kitts recalled. There was a brief spike in rates, however, and MW Group waited to rate lock until July 7. "As it turned out, when the June numbers came in, they had dropped a bit," Kitts said. "But to our relief, we still were inside Fannie Mae's requirements and management was able to provide forecast move-ins and move-outs for the month of July."

July proved to be a turning point. On July 1, the community began offering highly supervised tours for new residents and soon received commitments for three move-ins, which would counter natural attrition and boost its financials.

THE IMPACT

Giving Customers the Assurance of an “Exceptional” Execution

Lument delivered on its commitment, going from executed loan application to loan funding in less than 45 days and providing MW Group with its financing on July 28: a $33.2 million, 10-year, fixed-rate loan at 3 percent interest and five years of interest-only payments. The client was pleased, sending the Lument team a note praising its “exceptional” execution and asking Harper to express his gratitude to all involved.

Harper credits the extra level of vigilance and time the entire team and client put into the deal for its success. “During the pandemic, you have to put more work upfront just to screen the deal, and even after you are underwriting, there is more focus on the property’s latest monthly collections and occupancy than in normal times,” he said.

For his part, Kitts stresses that his team was able to meet MW Group’s needs even as Lument was in the first months of its integration. “We were in the midst of adopting best-of-class procedures from all three of our brands — Hunt Real Estate Capital, Lancaster Pollard, and RED,” he said. “We were successful because we were able to effectively manage changes in our internal processes even as we were responding to an extremely fluid and uncertain external environment.”

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$33.2M

10-YEAR, FIXED-RATE LOAN

3%

INTEREST

5 YEARS

INTEREST-ONLY PAYMENTS

LUMENT