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Fitch: Multifamily Housing Cushioned Against End of Aid and Eviction Ban

Fitch Ratings-New York-30 August 2021: Multifamily mortgage delinquency levels have remained low throughout the pandemic, up only slightly from pre-pandemic levels for both Fitch-rated affordable housing and market-rate housing loans in commercial mortgage backed securities (CMBS), Fitch Ratings says. The end of federal unemployment aid that provides support to individuals may lead to increased rent delinquencies, negatively affecting multifamily loan performance. Both affordable housing transactions and CMBS have robust overcollateralization to protect against multifamily loan performance deterioration.

Occupancy levels may see some volatility with the end of the Centers for Disease Control and Prevention's (CDC) eviction moratorium, which applied to those counties experiencing substantial and high community transmission virus levels, covering over 90% of the country. The Supreme Court of the United States ruled on August 26 that the CDC did not have the authority to impose the moratorium. Only a fraction of federal aid for rental assistance has been dispersed, and it is unclear how quickly remaining funds will be made available.

The impending expiration of federal supplemental unemployment benefits in September presents a significant income cliff for millions of unemployed and increased coronavirus cases are expected to drag on jobs recovery for lower wage earners. Lower wage sectors saw the biggest hit to employment during the pandemic and employment has not rebounded for these sectors to the same extent as other wage brackets.

We would expect delinquencies and evictions to be higher for lower-income individuals, although some affordable housing properties lack the ability to evict tenants. For the week ending August 2, 70% of renters who were delinquent on rent payments have an annual household income of less than \$35,000, according to the US Census Bureau. This is a material jump up from a range of 60% to 63% during the 1H21. The National Multifamily Housing Council Rent Payment Tracker indicates that 94.9% of apartment renters made a full or partial rent payment in July, down 0.7% from June and 0.8% yoy.

Fitch-rated affordable housing programs maintained sufficient cushion along with liquidity and reserves sized to cover short-term cash flow disruptions without eroding the overcollateralization sufficient to cover debt service payments and provide cushion for higher ratings. Fitch's stress scenario models a hit of 10%-50% to NOI for rated affordable housing pools. This assumes 30% of each unsubsidized property may experience non-payment or payment lag in addition to a 10%-20% increase in operating expenses, due to coronavirus containment efforts during a six-month period, resulting in a total discount to the debt service coverage ratio (DSCR) of 40%-50%. We assume full, on-time rental payments for government subsidized properties and an increase in operating expenses of 10%-20%, resulting in a 10%-20% discount to the DSCR.

Multifamily mortgages securitized in Fitch-rated conduit CMBS and Freddie Mac transactions are typically 10-year loans backed by properties with historically strong performance. CMBS multifamily

delinquencies remained low, ticking up slightly to 0.49% in July 2021, compared with 0.41% prior to the pandemic. Master servicers for CMBS transactions are obligated to advance against missed principal, interest, taxes and insurance, thus providing liquidity if there are payment shortfalls.

Multifamily cash flow performance throughout the pandemic significantly outperformed our expectations and we have removed additional coronavirus stresses for CMBS multifamily loans. The expiration of the eviction moratorium is not expected to cause disruptions to landlords of properties securitized in CMBS, as multifamily property-level NOI for conduit and Freddie Mac loans in our rated portfolio saw an overall positive NOI growth rate of 1.4% in 2020. Some of the Negative Outlooks previously assigned were revised to Stable based on performance stabilization.

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