



## Moderate Rehab Best Practices: Conversion

The purpose of this document is to provide Optigo Seller/Service of Moderate Rehabilitation Loans best practices and guidance to ensure successful loan sizing and submission. This document is not all-inclusive of all details required.

Each Moderate Rehabilitation loan must be re-underwritten prior to conversion. The purpose is to assess deal performance, securitization readiness, and determine whether the loan qualifies for Additional Loan Proceeds. Please see timing and underwriting package requirements below:

Conversion Date: The first day of the permanent phase.

Conversion Process: Assessment of the loan in the months ahead of the conversion date.

Additional Loan Proceeds: Increase in UPB above what was committed to at origination.

1. If Additional Loan Proceeds are being requested (UPB increase):
  - a. A full underwriting package is due (including a post-construction analysis report) + inspections
  - b. Additionally, all requirements noted in the Disbursement Agreement related to renovation completion are due.
  - c. Sponsor will be responsible for covering all costs of third-party reports (including appraisal) and other due diligence.
  - d. The total UPB including the Additional Proceeds Loan and the existing loan must achieve the “As Stabilized” DCR and LTV parameters used by Lender at origination to size the loan.
  - e. Package Due: 4 months prior to conversion date
2. If standard conversion (no change to UPB) AND loan is performing:
  - a. Limited Underwriting Package (see below) + inspection is due
  - b. Freddie Mac will cover the costs of third party reports (all except the post-construction analysis report)
  - c. Additionally, all requirements noted in the Disbursement Agreement related to renovation completion are due
  - d. Package Due: 4 months prior to conversion date
3. If standard conversion (no change to UPB) AND loan is not performing:
  - a. 4 months prior to conversion date
    - i. Seller must submit an updated LST (1.8v. or later) with a new rent roll, T-12, historical operations (3 years back), updated borrower budget for the coming year, collections, and estimated value
    - ii. All backup documentation must be uploaded to DMS (perm phase loan #) and certified
    - iii. Inspection must be scheduled
    - iv. Post-construction analysis report is due
    - v. All requirements noted in the Disbursement Agreement related to renovation completion are due.
  - b. The Limited Underwriting Package (see below) will not be ordered until the loan begins performing.
4. Freddie Mac Refinance:
  - a. If the sponsor is considering refinancing into another Freddie Mac loan, then Freddie Mac Regional Production team will issue a new quote and the standard underwriting process will follow. The loan will have to refinance and close ahead of the conversion date. Otherwise, the loan will be locked out.

**Standard Inspection: (scheduled after package delivery)**

- Seller to do a full inspection with a Lease Audit
- Inspection Pictures Required– showing units, as well as all amenities, exterior, and common area renovations
- Freddie Mac will do a limited inspection

**Limited Underwriting Package**

- Confirmation that the org chart is the same –provide an updated org chart if it has changed
- Property Operating Statements including last 3 years and a T-12
- Rent Roll
- Updated Borrower Budget for the coming year
- Updated tax bills
- Insurance submission in ICT (permanent phase loan record)
- Post-Construction Analysis Report (more in depth PCA) – see below for further detail
- Updated Survey if the footprint of the property changed.
- Other Third-Parties/Reports if recommended by appraiser or engineer
- LST (1.8 version or later; select TAH product type)
- Abbreviated Narrative on S/S Letterhead confirming –
  - that all outstanding items at closing from origination of the mod rehab loan have been addressed
  - no material changes to transaction (ex. management change, assumptions, borrower litigation, market changes, etc.)
  - Cashflow footnote summary
- Updated PLIM if necessary
- Additionally, all requirements noted in the Disbursement Agreement related to renovation completion are due.
- Property inspection and Lease Audit (see freddiemac.com for template)
- Non-con opinion drafted and finalized (if loan at or over \$25MM)
- If Permanent Phase loan is Floating Rate, interest rate cap is required

Freddie Mac will engage:

- Updated Appraisal
- Updated Zoning report if a new survey was provided.

Post-Construction Analysis Report (Post-Con):

- If construction still ongoing, the Post-Con should incorporate the latest Construction Monitoring Reports.
- The Final Post-Con Report will be due upon construction completion
- The Post-Con Report must include all PCA requirements including updated 1105 forms [replacement reserve table must cover the permanent phase term + 2 years]
- Must review final budget and compare against the original budget, explaining discrepancies, change orders, etc.
- See Seller/Service Guide 63.5(a) for further details.

**DMS:** please upload to Permanent Phase Loan Number

- For each uploaded item: note “Conversion Underwriting” prior to document title
- Ex. Conversion Underwriting - Narrative

**Full Underwriting Package:** see S/S Guide, Exhibit 1: Section 1.1 Conventional Checklist

Please reach out to your Freddie Mac representative with any questions.

See the following *Moderate Rehab Best Practices* for further details:

- Moderate Rehab Best Practices: Servicing, Renovation Monitoring and Draws
- Moderate Rehab Best Practices: Property Condition Due Diligence