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10.1 Freddie Mac's core credit principles (11/30/12)

Freddie Mac bases its credit decisions on the following core credit principles:

- **Cash Flow:** Freddie Mac invests in Mortgages secured by residential rental properties that produce sustainable cash flow sufficient to provide net operating income that will cover the debt service for the entire term of the Mortgages.
- **Market Knowledge:** Freddie Mac considers a current and comprehensive knowledge of the economic strength and resiliency of the applicable market to be key to any prudent credit decision.
- **Equity:** Borrower Principals (sponsors) who have verifiable cash investment in a Property will receive the best credit terms since they have a strong incentive to actively manage the operation of the Property, which contributes to the growth of equity.
- **Viable Exit:** Each Mortgage must show a clear, definable exit at loan maturity through refinance, sale or amortization. The projection of exit at maturity must take into consideration future interest rate and value estimates as well as other possible market constraints.
- **Sponsorship:** Borrower Principals (sponsors) who have the most operational experience, the greatest financial strength and the most extensive property ownership will be eligible for the best credit terms since these are key factors to the long-term success of multifamily properties.
- **Quality Real Estate Collateral:** Properties securing Freddie Mac-owned Mortgages must be of good quality, representing high standards for the applicable property class and market.

The individual program and product chapters detail specific program or product requirements. If there is a conflict between any provision of this chapter and any provision of another chapter of the Guide that contains requirements for a specific Mortgage purchase program or product, the program- or product-specific chapter will control.

10.2 Seller/Servicer evaluation of Property and Borrower (04/13/23)

a. Seller/Servicer evaluation factors (04/13/23)

The underwriting of a multifamily Mortgage involves consideration of the economics of the Property as well as of the financial capability, credit standing and managerial ability of the Borrower.

The Seller/Servicer must determine that each multifamily Mortgage offered for sale to Freddie Mac meets the purchase standards and other requirements commonly acceptable to private institutional mortgage investors in the area in which the Property is located. The Seller/Servicer must base this determination on its thorough evaluation of all available pertinent information. The Seller/Servicer's evaluation must include an analysis of the Borrower's investment policy and long-range plans for the Property.

The Seller/Servicer must memorialize the gathered information and its evaluation in writing.

The Seller/Servicer must include the following in its evaluation:

1. **Management**

   The quality of the management of the Property is significant to maintaining or increasing net income and, therefore, to the success of the Property. Good management will keep the Property competitive and rented to the extent necessary to operate the Property at a profit when possible. Good management also enacts good maintenance and replacement policies that maintain the Property at adequate standards to maximize rents. Maintenance must be consistent with the Property's quality and financial ability to pay while maintaining maximum occupancy. The Borrower must recognize the difference between minimal maintenance and maintenance that may improve the net income of the Property on a continuing basis.

2. **Borrower's creditworthiness**

   The Seller/Servicer must analyze each Borrower's and Key Borrower Principal's creditworthiness. The evaluation of the Borrower's and Key Borrower Principal's financial responsibility and credit history is a major consideration in the underwriting. Not only must there be strong evidence of ability to repay and/or guaranty the Mortgage, but also a history of making payments according to the terms of other financing.

3. **Borrower's equity**

   The Seller/Servicer must carefully analyze the Borrower's and Key Borrower Principal's financial statements to determine the Borrower's and Key Borrower Principal's equity as it relates to real estate investments, mortgage debt and attendant mortgage demands on equity. If the Borrower's or Key Borrower Principal's holdings are encumbered so that the debt service on those holdings requires a high percentage of the rental income from those properties or if the holdings consist substantially of unimproved or underimproved properties having little or no gross income, the Seller/Servicer must exercise care to determine whether the Borrower and Key Borrower Principals can and will be able to meet all of the loan obligations of the Property.

b. Key Borrower Principal guaranty and spousal information (04/13/23)

The evaluation of the Property and Borrower may result in Freddie Mac requiring one or more of the Key Borrower Principals, in the Key Borrower Principal's individual capacity, to guaranty the payment of all or a portion of the amounts due and the performance of certain obligations of the Borrower under the Mortgage. If more than one Key Borrower Principal provides such a guaranty, the Guarantors' liability may be joint and several.

If Freddie Mac requires one or more of the Key Borrower Principals to guaranty the payment of all or a portion of the amounts due under the Mortgage, such Key Borrower Principal must satisfy Freddie Mac's standards for creditworthiness. If it is determined that a Key Borrower Principal's financial strength does not meet Freddie Mac's standards for creditworthiness for the Mortgage, then Freddie Mac may require additional credit enhancement or an additional Guarantor.

In determining the financial strength of the Key Borrower Principal, the Seller/Servicer must not request information about the Key Borrower Principal's spouse or former spouse and must not require the Key Borrower Principal's spouse or former spouse to guaranty the Mortgage except for the following reasons:

- The Key Borrower Principal is relying on the spouse’s income or assets as a basis for guarantying the Mortgage, or
- The spouse has a substantial interest in the Borrower and/or the Property.

10.3 Creditworthiness of a previous Borrower (04/13/23)

Freddie Mac does not consider the creditworthiness of a previous Borrower in its underwriting process. If the Borrower purchased the Property subject to the Mortgage or assumed the Mortgage, Freddie Mac will consider only the current Borrower's and Key Borrower Principal’s creditworthiness.

10.4 Underwriting analysis (11/30/12)

High-quality underwriting is essential to protect Freddie Mac's interests in its purchase of Mortgages. This includes consideration of objective and subjective criteria in the review of the Borrower's qualifications and of the proposed Property. The information required in Sections 10.2 and 10.3 and under each program or product is essential for a meaningful underwriting.

Some of the foremost factors the Seller/Servicer must consider include the following:

1. Borrower's qualifications (see Section 10.2)
2. Property vacancy, market vacancy and/or collection loss
3. Rental concessions and rent levels
4. Tenant demand and housing supply
5. Property operating and maintenance expenses
6. Property physical condition
7. Debt Coverage Ratio
8. Loan-to-Value Ratio
9. The return on the Borrower's equity
10. Estimated long-term marketability of the Property

Freddie Mac will not purchase a Mortgage unless there is a positive return on the Borrower's equity before income tax considerations.

10.5 SPE Equity Owner (11/30/12)

An SPE Equity Owner may not be the Guarantor.

10.6 Amortization/term (09/08/04)

All monthly payments on a Mortgage must be due on the first day of the month.

For an amortizing mortgage, the monthly payments on the Mortgage, including principal and interest, must be sufficient to fully amortize the Mortgage within a period of not more than 30 years. The term of the Mortgage may be the same as or shorter than the amortization period.

For purposes of calculating the original maturity of a fixed-rate or interest-only Mortgage, the commencement date of the Mortgage term is

- For newly originated fixed-rate or interest-only Mortgages, the date one month prior to the Due Date of the first amortization payment or full interest-only payment

- For fixed-rate or interest-only Mortgages that have been modified prior to delivery to Freddie Mac, the date one month prior to the Due Date of the first amortization payment or full interest-only payment on the modified Mortgage

For example, in both of the above cases, if the Due Date of the first amortization payment is April 1, 1986, the commencement of the Mortgage term is March 1, 1986.

10.7 Investment quality (04/13/23)

The Mortgage must have the characteristics of an "investment quality mortgage," which is defined as a loan to a Borrower from whom timely repayment of the debt can be expected and that is secured by real property providing sufficient value to recover the lender's investment if a default occurs. The characteristics of an "investment quality mortgage," may include:

1. Strong market (which is demonstrated by low vacancy, minimal rental concessions, stable or increasing tenant demand, good balance of housing supply and demand, stable economic base, and employment diversification)

2. Strong property operations (which is shown by low vacancy, minimal rental concessions, stable or increasing rents, and stable or decreasing operating and maintenance expenses)

3. Excellent property condition

4. Strong Borrower and Key Borrower Principals (which is evidenced by a strong net worth, liquidity, credit history and experience)

5. Proven management ability of the Borrower, Key Borrower Principals or third-party property manager

10.8 Mortgage lien priority (11/30/12)

a. Mortgages which are not supplemental Mortgages (11/30/12)

Each Mortgage must be a valid First Lien on the Property. The Property must be free and clear of all prior liens and encumbrances. No rights may be outstanding that could give rise to such liens, except for liens for real estate taxes and special assessments not yet due and payable and those that Freddie Mac has waived in writing.

Each Mortgage must also be a valid First Lien security interest in all fixtures, all of the Borrower's personal property that is located in or on the Property or is used or is intended to be used in connection with the Property and any other UCC collateral defined in the Security Instrument, whether owned at the time the Mortgage is made or acquired after that date. (See Section 29.4 for requirements related to Uniform Commercial Code searches.)

A security interest must be perfected on all personal property of the Borrower which is located in or on the Property or is used or intended to be used in connection with the Property, whether owned at the time the Mortgage is made or acquired after that date.

b. Supplemental Mortgages (11/30/12)

Each supplemental Mortgage originated pursuant to Chapter 20 must be a valid lien on the Property, with the applicable priority approved by Freddie Mac. Except as approved in writing by Freddie Mac

- The Property must be free and clear of all prior liens and encumbrances.
- No rights may be outstanding that could give rise to any prior liens, except for liens for real estate taxes and special assessments not yet due and payable.

Each supplemental Mortgage must also be a valid security interest in all fixtures, all of the Borrower's personal property that is located in or on the Property or is used or is intended to be used in connection with the Property and any other UCC collateral defined in the Security Instrument, whether owned at the time the Mortgage is made or acquired after that date. (See Section 29.4 for requirements related to Uniform Commercial Code searches.)

A security interest must be perfected on all personal property of the Borrower which is located in or on the Property or is used or intended to be used in connection with the Property, whether owned at the time the Mortgage is made or acquired after that date.

10.9 Adverse circumstances -- Mortgage (09/08/04)

There must be no circumstances or conditions of which the Seller is aware involving the Mortgage that adversely affect the value or marketability of the Mortgage.

10.10 Originator and origination fees (09/28/18)

The Seller is fully liable for all warranties and representations made to Freddie Mac regardless of who originated the Mortgage, including the warranties and representations regarding origination fees in Section 5.3(d).

10.11 Mortgage not modified (11/30/12)

The Mortgage must be a legal, valid and binding obligation of the Borrower, enforceable according to its terms and conditions, and free from any right of setoff, counterclaim or other claim or defense. No part of the Property may have been released from the Mortgage.

The terms of the Mortgage may not be modified, amended or in any way waived or changed, except as approved by Freddie Mac prior to the delivery of the Mortgage and as evidenced in a written modification agreement or other document that the Seller delivers to Freddie Mac with the Mortgage.

10.12 Principal amount advanced; no mandatory future advances; outstanding balance (04/30/13)

The Mortgage originator must have advanced the full principal amount of each Mortgage to the Borrower or according to the direction of the Borrower. The Borrower must not have an option under the Loan Documents to borrow additional funds secured by the Security Instrument from the Seller or the Servicer or any other person.

The outstanding principal balance of the Mortgage must be as represented by the Seller to Freddie Mac and must be fully secured by the Security Instrument.

10.13 Compliance with laws (06/24/25)

a. General requirements (04/30/13)

The Seller, as Mortgage originator, and the Mortgage must meet all requirements of all federal, State, and local laws, rules and regulations applicable to Mortgages and mortgage transactions, including truth in lending laws, licensing laws, doing-business laws and usury laws.

b. Equal Credit Opportunity Act and Fair Credit Reporting Act compliance (06/24/25)

If the Seller declines a Mortgage application, if the Mortgage application is incomplete, or if the Servicer declines a post-closing extension of credit (*e.g.,* a Transfer of Ownership/Assumption; refer to the FAQs on Adverse Action Notices for the entire list), the Seller/Servicer, as Mortgage originator and/or Servicer, must comply with all applicable laws, rules and regulations, including the Equal Credit Opportunity Act and Fair Credit Reporting Act, as amended from time to time.

1. Equal Credit Opportunity Act (ECOA)

If an application is incomplete or declined, the Seller/Servicer must deliver written or oral notice to the Borrower on behalf of Freddie Mac within the applicable time frame stated in ECOA and in substantial conformity of the applicable model notices included in Appendix C of ECOA.

2. Fair Credit Reporting Act (FCRA)

In addition to the requirements above, if a Mortgage application is declined due to an adverse credit report of an individual Borrower Principal (i.e., the general partner in a partnership), the Seller/Servicer must comply with the FCRA, including the delivery of written notice solely to the individual Borrower Principal on behalf of Freddie Mac with the adverse credit report in accordance with Section 615 of FCRA, as amended from time to time.

The Seller/Servicer must maintain a record of all written notices that it sends out on behalf of Freddie Mac and must maintain copies in accordance with ECOA and FCRA, as applicable.

The Seller/Servicer must issue the Borrower an Adverse Action Notice within 30 calendar days if:

- Freddie Mac declines to purchase a new Mortgage loan or a post-closing extension of credit (*e.g.,* a Transfer of Ownership/Assumption; refer to the FAQs on Adverse Action Notices for the entire list), and
- For loan originations, the Borrower does not accept the Seller's quote from another institution offering similar credit terms

Additionally, effective April 1, 2025, the Seller/Servicer must upload into DMS in the Adverse Action Notices folder (in accordance with the DMS Job Aid for Uploading Adverse Action Notices) within five Business Days following issuance of the Adverse Action Notice to the Borrower:

- A copy of a written Adverse Action Notice and evidence that the Seller/Servicer issued it to the Borrower (*e.g*., email, certified mail receipt, courier receipt, etc.); or
- A written statement detailing the date that the Seller/Servicer issued an oral Adverse Action Notice to the Borrower to inform them of the application denial, including a statement that all ECOA required information was conveyed to the Borrower; or
- For Mortgage loan originations, a written statement detailing that the Seller did not issue an Adverse Action Notice because the Borrower accepted a quote from another institution offering similar credit terms. The statement must detail the date the Seller/Servicer was informed that the Borrower accepted another quote.

10.14 Mortgage not in default (09/08/04)

All costs, fees and expenses incurred in making, closing and recording the Mortgage must have been paid. Within the three-month period before the Delivery Date, there must not have been outstanding any advance of funds by the Seller or any prior holder of the Mortgage, or by another at the request of the Seller or any prior holder of the Mortgage, to or on behalf of the Borrower to be used by the Borrower for the payment of any monthly installment, principal, interest or other charges payable under the terms of the Mortgage.

10.15 Seller authorized to sell Mortgage; Purchase and Servicing Documents authorized (04/30/13)

As of the Freddie Mac Funding Date, the Seller must

- Be the sole owner of the Mortgage
- Have full legal authority to sell, transfer and assign the Mortgage to Freddie Mac, and
- Have duly taken all required corporate action and obtained any consents required to sell, transfer and assign the Mortgage to Freddie Mac free and clear of all claims, security interests, participations or other encumbrances

The Seller must have duly authorized, executed and delivered the Purchase Contract, which must be valid, binding and enforceable according to its terms and conditions.

Compliance by the Seller with the terms and conditions of the Purchase and Servicing Documents must not conflict with, result in a breach of or default under, or be adversely affected by any of the following:

- Any terms and conditions of the charter or bylaws of the Seller
- Any agreement or instrument to which the Seller is a party
- Any judgment, order or regulation to which the Seller is subject

The Seller must be a Seller/Servicer in good standing on the date of the Seller's offer, on the Delivery Date and on the Freddie Mac Funding Date.

10.16 Characterization and nature of SBL Mortgages (06/30/16)

For SBL Mortgages:

1. The Seller and Freddie Mac agree that with respect to every SBL Mortgage purchase and sale transaction entered into under the Purchase and Servicing Documents, the Seller and Freddie Mac intend the transaction
   - To be construed as the Seller's sale, transfer, conveyance and delivery of each SBL Mortgage to Freddie Mac
   - To be construed as Freddie Mac's purchase and receipt of such SBL Mortgage
   - Not to be construed as the Seller's pledge to secure a debt or any other obligation
2. The Seller and Freddie Mac intend for the sale, transfer, conveyance and delivery of all SBL Mortgages to Freddie Mac by the Seller to be true, absolute and unconditional sales.

   If despite the intent of the Seller and Freddie Mac, the SBL Mortgages (or any of them) are determined to be the property of the Seller (i.e., the sale was not a true sale), Freddie Mac and the Seller agree that
   - The Purchase and Servicing Documents create a security agreement within the meaning of the Uniform Commercial Code (UCC) in effect in the applicable State, conveying to Freddie Mac a security interest in all of the Seller's right, title, and interest in and to the Mortgage and all proceeds from the Mortgage
   - Freddie Mac is the secured party under such security agreement
   - The possession by Freddie Mac of the Notes (and any related documents) will be deemed to be possession by Freddie Mac for purposes of perfecting the security interest pursuant to the UCC

- The Seller will assist Freddie Mac with any reasonable actions necessary to ensure that Freddie Mac receives a perfected security interest of first priority under applicable law
- Freddie Mac will have all of the rights and remedies of a secured party and creditor under the UCC and may execute and file UCC financing statements as reasonably necessary

10.17 Purchase amount (09/08/04)

Generally, the amount paid by Freddie Mac to purchase a multifamily Mortgage will not exceed 100 percent of the outstanding principal balance of the Mortgage, adjusted for prepaid or accrued interest as of the day before the Freddie Mac Funding Date.

10.18 Permitted Mortgage amount - Acquisition financing and certain refinances (06/24/25)

The Mortgage amount must be based on the lesser of the appraised value or the total acquisition cost. This section applies not only to acquisition transactions, but also to refinance loans in which the Property was acquired within 12 months of the date of the full underwriting package submission to Freddie Mac. A description of the appraised value is found in Chapter 60. (See also Section 32.3 for settlement statement content regarding closing costs.)

a. Total acquisition costs (06/24/25)

The total acquisition cost is defined as the sum of: (1) the purchase price and (2) permitted closing costs paid to third parties in connection with the acquisition in an amount no more than three percent of the purchase price and acceptable to Freddie Mac in its sole and absolute discretion. For SBL loans, capital improvements performed on refinance loans acquired within the past 12 months may also be permissible (see Section 10.18(b)(ii) below) (*Note:* See also Section 10.18(c) for additional adjustments if an allocation to intangible assets is contemplated.)

b. Permitted closing costs (06/24/25)

(i) Permitted closing costs must be documented and may include:

- Mortgage origination fees payable in connection with the new Mortgage (including Seller/Servicer fees incurred by the Borrower in connection with the origination of the loan and Freddie Mac's application fee) if not included in the interest rate (*Note:* See also Sections 5.3(d) and 17.1(f) origination fee requirements)
- Broker fees or acquisition fees for the new Mortgage paid by the Borrower, subject to a sublimit of one percent
- Prepayment fees on the existing indebtedness if paid by the Borrower
- For adjustable rate mortgages, the actual cost of the initial interest rate cap
- Other reasonable closing or settlement costs paid by the Borrower, such as mortgage registration taxes, recordation fees, survey, title searches and title insurance

premiums, attorney's fees, and credit report charges

- Fees to consultants for the preparation of third-party reports including Appraisals, environmental reports, and property condition reports
- Costs associated with the Borrower's voluntary capital improvements for the Property and/or Priority Repairs identified in the Property Condition Report or SBL Physical Risk Report, so long as the following three requirements are met:
    - The total cost of the voluntary capital improvements and/or Priority Repairs is escrowed at Mortgage origination
    - The voluntary capital improvements and Priority Repairs will be completed within 12 months of Mortgage origination
    - The Loan Agreement must require that if there are remaining funds after satisfactory completion of the voluntary capital improvements and Priority Repairs, such funds must be deposited into the Replacement Reserve Fund
- In a Green Up or Green Up Plus Mortgage, costs associated with Green Improvements, so long as the following three requirements are met:
    - The total cost of the Green Improvements is escrowed at Mortgage origination
    - The Green Improvements will be completed within 24 months of Mortgage origination
    - The Loan Agreement must require that if there are remaining funds after satisfactory completion of the Green Improvements, such funds must be deposited into the Replacement Reserve Fund

(ii) For SBL loans, permitted closing costs for refinance loans acquired within 12 months of the date of the full underwriting package submission to Freddie Mac may include costs associated with the Borrower's Capital improvements that are verified at the time of the property inspection by the Seller/Servicer and Freddie Mac, as well as by the third-party consultant as documented within the SBL Physical Risk Report. These capital improvements costs are not subject to the three percent cap noted in Section 10.18(a) and must be acceptable to Freddie Mac.

c. Allocation to intangible assets (10/17/24)

With the exception of Seniors Housing Mortgages, if there is any allocation to intangible assets (including goodwill) in connection with the acquisition of the Property, such allocation may be permitted subject to the following:

- The final Mortgage amount, as reflected on the final settlement statement, cannot exceed 90% of the real property allocation (*i.e.*, total purchase price less any intangible asset allocation (including goodwill)). For purposes of this calculation, if any amount of the purchase price is allocated to personal property, such amount will be considered part of the real property allocation.

- If the transaction includes an allocation to goodwill, the total acquisition cost is defined as the sum of: (1) the purchase price excluding goodwill and (2) permitted closing costs paid to third parties in an amount no more than three percent of the purchase price excluding goodwill.