Multifamily Seller/Servicer Guide

Chapter 17

Originating a Mortgage under the Multifamily Conventional Cash Mortgage Purchase Program

17.1 Overview (04/15/21)

a. Program and related products (04/15/21)

This chapter provides an in-depth discussion of the underwriting requirements for originating a Mortgage under the Multifamily Conventional Cash Mortgage Purchase Program.

Certain products may have additional or different requirements as specified in the following chapters:

- Moderate Rehabilitation (Mod Rehab) Mortgages – Section 17.4(a)
- Small Balance Loan (SBL) Mortgages – Chapter 18SBL
- Targeted Affordable Housing (TAH) Cash Mortgages – Chapter 19
- Forward Commitment TAH Cash Mortgages – Chapter 19A
- Supplemental Mortgages – Chapter 20
- Seniors Housing Mortgages – Chapter 21
- Manufactured Housing Community (MHC) Mortgages – Chapter 22
- Green Advantage – Chapter 24
- Tax-Exempt Loans – Chapter 25
- Forward Commitment Tax-Exempt Loans – Chapter 25A
- TAH Bond Credit Enhancement Mortgages – Chapter 28
- Forward Commitment TAH Bond Credit Enhancement Mortgages – Chapter 28A

With respect to the origination of cash Mortgages with certain affordability components, Conventional Seller/Servicers may originate and sell the following, subject to certain conditions:

- Mortgages with Low Income Housing Tax Credits (LIHTC) after year 15 of the initial compliance period
- Mortgages with Section 8 HAP contracts
- Mortgages with Section 8 vouchers
- Mortgages with tax abatements

Conventional Seller/Servicers should contact their Freddie Mac representative for additional information. For a chart outlining Conventional Seller/Servicer and TAH Seller/Servicer eligibility for originating and selling Mortgages with certain affordability components, see Exhibit 2, Origination Guidelines for Targeted Affordable Housing Mortgages.

b. Investment quality (04/30/13)

Each Mortgage to be delivered to Freddie Mac under the Multifamily Conventional Cash Mortgage Purchase Program must have characteristics that demonstrate investment quality (see Section 10.7).

c. Types of Mortgages (04/15/21)

Under the Multifamily Conventional Cash Mortgage Purchase Program, Freddie Mac may purchase any or all of the following types of Mortgages:

- Fixed-rate Mortgages (see Section 17.2) in which the interest rate is unchanged for the entire Mortgage term. Fixed-rate Mortgages may be amortizing or interest-only.
- Floating-Rate Mortgages in which the interest rate is adjusted for the entire Mortgage term. A Floating-Rate Mortgage may be amortizing or interest-only.
- Fixed to floating rate Mortgages in which the interest rate is fixed for a set term and is adjustable during an extension term of one year at the end of the term of the Mortgage
- Other types of Mortgages as announced by Freddie Mac from time to time

d. Securitization of Mortgages (03/03/14)

Freddie Mac intends to securitize certain Mortgages by selling them in the capital markets. At the time of a Securitization of a Mortgage, Freddie Mac will cease to own the applicable Mortgage and Servicing of the applicable Mortgage will be terminated upon such Securitization and transferred to a master servicer without compensation to the Freddie Mac Servicer. The Freddie Mac Servicer must assist in the transfer of Servicing to the master servicer by timely delivering to the master servicer all materials required by Section 42.7.

The Seller/Servicer agrees that if Freddie Mac decides to securitize or sell the Mortgage, the Seller/Servicer will: (a) permit Freddie Mac or its representatives to provide related information to the Rating Agencies and/or investors, and (b) cooperate with the reasonable requests of the Rating Agencies and/or investors in connection with a Securitization of the Mortgage.

e. Delivery Rate Lock options (04/15/21)

Freddie Mac offers both a standard delivery option under Chapter 27 and an early rate-lock delivery option under Chapter 27.

f. Minimum Origination Fee (06/25/20)

A Seller must charge a Minimum Origination Fee in connection with the origination and sale of a Mortgage to Freddie Mac as follows:

Program/Product	Minimum Origination Fee
Non-SBL Mortgages < $7.5M	1.00% of the UPB
Non-SBL Mortgages ≥ $7.5M and < $20M	Greater of 0.75% of the UPB or $75,000
Non-SBL Mortgages ≥ $20M and < $50M	Greater of 0.50% of the UPB or $150,000
Non-SBL Mortgages ≥ $50M	Greater of 0.25% of the UPB or $250,000

The Seller may satisfy the requirement for a Minimum Origination Fee with any combination of an origination fee and a premium buy-up. Buy-ups collected at no cost to the Borrower due to qualified loan characteristics cannot be included to meet the required Minimum Origination Fee. The Minimum Origination Fee must be collected by the Seller and cannot be used to reimburse closing costs.

g. Other requirements (04/15/21)

All Mortgages submitted for purchase under the Multifamily Conventional Cash Mortgage Purchase Program must comply with the requirements of Chapters 8, 9, 10, 27 and 32 as well as with the requirements of this chapter.

17.2 Fixed-rate Mortgage requirements (04/13/23)

A fixed-rate Mortgage submitted under the Multifamily Conventional Cash Mortgage Purchase Program must meet the requirements listed in this section. A fixed-rate Mortgage may be amortizing or may have an interest-only feature. For interest-only Mortgages, all other requirements of an amortizing Mortgage will apply unless specifically noted in this section.

a. Document delivery (04/15/21)

The underwriting checklists, the Final Delivery Tables of Contents and the Final Delivery Instructions, at https://mf.freddiemac.com/lenders/purchase/, set forth all documents required to be delivered to Freddie Mac under this program. The Seller must make timely deliveries in accordance with the requirements of this chapter and Chapter 32.

b. Eligible Mortgages, including Value-Add Mortgages and Moderate Rehabilitation Mortgages (05/05/17)

Mortgages for the purpose of the refinancing or acquisition of the Property are eligible for purchase.

Freddie Mac will consider purchasing Value-Add Mortgages where the Borrower expects to add value through renovations shortly after loan closing. For additional information, contact the *Applicable Freddie Mac Multifamily Regional Office* that serves the region where the Property is located.

Freddie Mac may also consider purchasing Moderate Rehabilitation Mortgages, where the Borrower will be making renovations to the Property beyond the Value-Add levels and needs the ability to draw funds as the renovations are completed rather than having the entire loan funded on the Origination Date, subject to additional conditions. For additional information, contact the *Applicable Freddie Mac Multifamily Regional Office* that serves the region where the Property is located.

For Mortgages secured by MHC Properties, the requirements of Section 22.3(a) apply rather than the requirements of this Section 17.2(b).

c. Term (06/29/17)

The term of the Mortgage may be from five to 30 years.

d. Amortization (05/11/10)

For amortizing Mortgages, the standard amortization period is 30 years.

The minimum amortization period for amortizing Mortgages is 15 years.

Notwithstanding the above, Freddie Mac, in its discretion, will determine the amortization period of the Mortgage.

e. Interest-only (05/11/10)

Interest-only debt service payments are available for up to ten years. Combinations of interest-only and principal and interest periods are available.

f. Prepayment provisions (04/15/21)

1. Prepayment provisions for a Mortgage with a Note that provides for defeasance that is not made a part of a Securitization prior to the Cut-Off Date (defined in the Note) are below:

    - The Borrower may prepay the Mortgage on any scheduled payment date, subject to compliance with all prepayment terms set forth in the Note, including payment of the applicable prepayment premium. The Borrower may not make any partial prepayments except as set forth in the Loan Documents.

    - The 2-year lockout period and Defeasance Period will not apply and the Mortgage will be subject to the Yield Maintenance Period as set forth in the Note.

    - No prepayment premium is due during the Window Period as defined in the Note (usually the last 3 months of the term of the Mortgage).

2. Prepayment provisions for a Mortgage with a Note that provides for defeasance that is made part of a Securitization prior to the Cut-Off Date are below:

    - If a Mortgage has a term of five or more years and is made a part of a Securitization prior to the Cut-Off Date, there is a 2-year lockout period during which prepayment will not be permitted, followed by a Defeasance Period, as defined in the Loan Documents. The Borrower may only defease the Mortgage in accordance with the requirements set forth in the Loan Documents. The Borrower may not make any partial prepayment during the Defeasance Period, except as set forth in the Loan

Documents.

- After the expiration of the Defeasance Period, no prepayment premium is due during the Window Period as defined in the Note (usually the last 3 months of the term of the Mortgage).

3. Prepayment provisions for a Mortgage with a Note that provides for yield maintenance only are below:

   - The Borrower may prepay the Mortgage in full on any scheduled payment date, subject to compliance with all prepayment terms set forth in the Note, including payment of the applicable prepayment premium. The Borrower may not make any partial prepayments except as set forth in the Loan Documents.

   - No prepayment premium is due during the Window Period as defined in the Note (usually the last 3 months of the term of the Mortgage).

g. Yield Maintenance Prepayment Premium (02/29/12)

The standard Yield Maintenance Period will be as follows:

Term of Mortgage	Yield Maintenance Period
5 years	4¾ years
7 years	6½ years
10 years	9½ years
15 years	14½ years
20 years	15 years
25 years	15 years
30 years	15 years

The minimum prepayment premium due during the Yield Maintenance Period is one percent of the amount prepaid.

After the expiration of the Yield Maintenance Period, with any prepayment, the Borrower must pay a prepayment premium of one percent of the amount prepaid, with the exception of Mortgages with a five-year term for which there is not a one percent prepayment premium period at the expiration of the Yield Maintenance Period. No prepayment premium is due during the Window Period as defined in the Note (usually the last three months of the term of the Mortgage).

h. Reserved

i. Reserved

j. Sales or transfers of Property or beneficial interests in the Borrower (09/08/04)

The Mortgage will permit Transfer of Ownership to a qualified purchaser on terms approved by Freddie Mac, in accordance with the terms of the Mortgage.

k. Vacancy/collection loss (09/08/04)

The vacancy and collection loss rate used in underwriting may not be less than 5 percent and must be adjusted upward if property and/or market conditions require.

l. Borrower recourse/third-party guaranties (04/13/23)

Freddie Mac typically will not require Borrower recourse, except upon the occurrence of certain events specified in the Note executed by the Borrower. However, Freddie Mac, in its discretion, may require additional Borrower recourse.

See Section 10.2(b) in the event Freddie Mac requires 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 under the Mortgage.

m. Servicing Spread (09/28/16)

The Servicing Spread will be as follows:

Servicing Spread		
Original Principal Balance between		Servicing Spread in basis points
$0	$2,000,000	20
$2,000,001	$5,000,000	16
$5,000,001	$10,000,000	14
$10,000,001	$15,000,000	12
$15,000,001	$20,000,000	11
$20,000,001	$25,000,000	10
$25,000,001	$30,000,000	9
$30,000,001	$50,000,000	8
$50,000,001 and above		7

n. Reserves (10/31/12)

Pursuant to Section 39.2, the Seller must establish Reserves for taxes, water and sewer charges, ground rents and other charges and assessments, if applicable, and insurance meeting the requirements of the Purchase and Servicing Documents. If required by Freddie Mac, the Seller must establish a Replacement Reserve and/or a Repair Reserve, in accordance with Section 39.3.

o. Co-op requirements (09/08/04)

Freddie Mac may adjust the program requirements in this section on a case-by-case basis for Mortgages secured by properties owned by cooperative housing corporations.

p. Financing of origination fees (09/08/04)

It is Freddie Mac's policy not to purchase Mortgages that finance payment of loan origination fees or comparable fees to the Seller in excess of reasonable amounts. The proceeds of the Mortgage may be used to pay loan origination fees or comparable fees to the Seller only to the extent that such fees are reasonable and in accordance with general industry standards.

q. Late charges and default interest (04/30/13)

The fixed-rate Note must provide that if an installment of principal (if applicable) and interest is received more than 10 days after its Due Date, a late charge will accrue equal to 5 percent of the amount of that installment. If applicable law prohibits imposition of a late charge until an installment is more than 10 days past due or provides for a maximum late charge of less than 5 percent, the Seller must use the minimum time period and the maximum late charge permitted by applicable law. The Seller/Servicer may not change any provisions regarding late charges without Freddie Mac's prior approval. Freddie Mac reserves the right to waive any late charge, in its discretion.

The fixed-rate Note must also provide that if any installment due under the Note remains past due for 30 days or more, or if the Borrower is in default under any other provision of the Note or other Loan Documents, the Note will bear default interest at a rate that is not less than 4 percent per annum in excess of the Note rate. If applicable law provides for a maximum rate of default interest that is lower than 4 percent per annum in excess of the Note rate, the Seller must use the maximum rate of default interest permitted by applicable law.

17.3 Floating-Rate Mortgage requirements (04/15/21)

A Floating-Rate Mortgage submitted under the Multifamily Conventional Cash Mortgage Purchase Program must meet the requirements of Section 17.2, as modified by this section.

a. Interest rate calculation (04/15/21)

Freddie Mac will calculate interest on a Floating-Rate Mortgage on the basis of a 360-day year and the actual number of days in the period for which interest is being calculated. As interest on a Floating-Rate Mortgage will accrue at a variable interest rate, there will not be a fixed annual debt service amount for the Mortgage.

b. Term (04/15/21)

The term of the Floating-Rate Mortgage may be 5, 7 or 10 years.

c. Prohibition against prepayment (04/15/21)

The Borrower will be prohibited from voluntarily prepaying the Floating-Rate Mortgage in whole or in part during the closed period, as set forth in Section 17.3(d), if the Borrower has chosen this prepayment premium option.

d. Prepayment premium (04/15/21)

Freddie Mac offers the following prepayment provisions that may be structured with the origination of a Floating-Rate Mortgage:

- One year closed period followed by 1 percent thereafter
- Declining yearly prepayment premium of 3 percent, 2 percent and 1 percent thereafter
- Declining yearly prepayment premium of 5 percent, 4 percent, 3 percent, 2 percent and 1 percent thereafter, or
- For 10-year capped Floating-Rate Mortgages only, declining yearly prepayment premium of 7 percent, 6 percent, 5 percent, 4 percent, 3 percent, 2 percent and 1 percent thereafter

Based on the prepayment provision chosen above, starting in year 2, 4, 6 or 8, Freddie Mac will waive the 1 percent prepayment premium if the Borrower voluntarily prepays the Floating-Rate Mortgage with the proceeds of a fixed-rate Mortgage that is the subject of a binding commitment for purchase between Freddie Mac and the Seller/Servicer.

No prepayment premium will be due during the Window Period as defined in the Note (usually the last three months of the term of the Floating-Rate Mortgage.)

e. Reserved (03/03/14)

f. Late charges and default interest (04/15/21)

The Floating-Rate Mortgage Note must provide that if an installment of principal (if applicable) and interest is received more than five days after its Due Date, a late charge will accrue equal to 5 percent of the amount of that installment. If applicable law prohibits imposition of a late charge until an installment is more than five days past due or provides for a maximum late charge of less than 5 percent, the Seller must use the minimum time period and the maximum late charge permitted by applicable law.

The Seller/Servicer may not change any provisions regarding late charges without Freddie Mac's prior approval. Freddie Mac reserves the right to waive any late charge, in its discretion.

The Floating-Rate Mortgage Note must also provide that if any installment due under the Floating-Rate Mortgage Note remains past due for 30 days or more, or if the Borrower is in default under any other provision of the Floating-Rate Mortgage Note or Loan Documents, the Note will bear default interest at a rate that is not less than 4 percent per annum in excess of the Note rate. If applicable law provides for a maximum rate of default interest that is lower than 4 percent per annum in excess of the Floating-Rate Mortgage Note rate, the Seller must use the maximum rate of default interest permitted by applicable law.

17.4 Moderate Rehabilitation (Mod Rehab Mortgages) (04/15/21)

A Mod Rehab Mortgage is collateralized by a well-constructed Property that can benefit from a capital infusion by the Borrower to upgrade the Property and increase its value.

Each Mod Rehab Mortgage is made in two phases. The first phase ("Interim Phase") is structured to accommodate the proposed renovation work, while the second phase ("Permanent Phase") is structured using the requirements of a standard cash loan. The Interim Phase consists of the initial funding issued at Mortgage origination and renovation draws issued throughout the renovation period. The renovation period cannot extend beyond the Interim Phase, and is subject to the time limits set forth in the Disbursement Agreement. At the end of the Interim Phase, the loan (with an unpaid principal balance reflecting the aggregate of the initial funding and all subsequent draws) converts to the Permanent Phase.

A Mod Rehab Mortgage must use the standard delivery option. In addition to complying with all standard requirements under the Multifamily Conventional Cash Mortgage Purchase Program noted under this Chapter 17, the following sections detail further requirements applicable to Mod Rehab Mortgages:

- Exhibit 1, Section 1.1, Conventional Checklist
- Section 60.28, Appraisals for Moderate Rehabilitation (Mod Rehab) Mortgages
- Chapter 63, Construction Reports
- Section 39.9, Servicing Moderate Rehabilitation (Mod Rehab) Mortgages
- Section 55.2, Requirements for documents contained in the underwriting package

1. Timing of renovation completion

   All units must be habitable no later than six months prior to Conversion to the Permanent Phase. Minor unit renovations such as installation of light fixtures can be ongoing.

   All renovation work must be completed no later than three months prior to Conversion.

2. Timing of additional proceeds request

   If additional proceeds are requested, the Seller/Servicer must provide notice within six months of Conversion to the Permanent Phase and must deliver a full underwriting package four months prior to Conversion. All renovation work must be completed no later than three months prior to Conversion.

   The Seller/Servicer must prepare the full underwriting package following the requirements for a standard delivery found in Exhibit 1, Section 1.1, Conventional Checklist. However, the property condition report must comment on whether the renovation work is still ongoing or already completed, and incorporate the latest construction monitoring report or the post-construction analysis report, whichever is available. The construction reports are described in Chapter 63.

17.5 Underwriting package requirements and review period (04/15/21)

See Section 27.5 for information regarding the content of underwriting packages.

Instructions for preparing and delivering the underwriting packages and remitting any required fees to Freddie Mac are found in Chapter 55. Chapter 55 also contains a complete description of Freddie Mac's requirements for each document in an underwriting package, including a description of the required content and whether the document must be certified.

The Seller should plan for a reasonable period for Freddie Mac to process and review the LST or underwriting package before receipt of the Quote, the early rate-lock application or the Letter of Commitment, as appropriate.

17.6 Workforce Housing Preservation (10/19/23)

A Workforce Housing Preservation Mortgage will have rent restrictions in place to preserve middle-income housing rental stock. Either the Loan Documents for the Workforce Housing Preservation Mortgage will contain Borrower-elected rent restrictions that are more restrictive by income or unit count than those existing pursuant to any federal, state or local requirements or the Property will be subject to third-party, non-governmental restrictions subject to Freddie Mac review and approval of the third-party agreement terms.

Workforce Housing Preservation Mortgages must comply with all standard requirements under the Multifamily Conventional Cash Mortgage Purchase Program noted under this Chapter 17, and the Workforce Housing Preservation Mortgage must:

- Require a market-based percentage of units to be set aside for middle-income tenants with a minimum of 20% of units
- Meet market-based affordability thresholds, which are measured as a percentage of area median income
- Be a fixed-rate Mortgage
- Have a preservation period that is the lesser of the term of the loan or 10 years (flexibility may be available in the last year of the loan term)
- Require annual borrower certification of rent affordability levels