

Multifamily Seller/Servicer Guide

Chapter 19

Originating a Targeted Affordable Housing Cash Mortgage

19.1 Overview

a. Program and related products (05/05/17)

This chapter provides the requirements for Targeted Affordable Housing Seller/Servicers who are originating a Mortgage under the Targeted Affordable Housing Cash Mortgage Purchase Program utilizing the prior approval model.

Requirements for other Targeted Affordable Mortgages are found in:

- Forward Commitment TAH Cash Mortgages – Chapter 19A
- TEL Mortgages – Chapter 25
- Forward Commitment TELs – Chapter 25A
- TAH Bond Credit Enhancement Mortgages – Chapter 28
- Forward Commitment TAH Bond Credit Enhancement Mortgages – Chapter 28A

Chapter 17, Originating a Mortgage under the Multifamily Conventional Cash Mortgage Purchase Program, provides the requirements applicable to Conventional Seller/Servicers. With respect to the origination of cash Mortgages with certain affordability components, Multifamily 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 Sellers 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 (03/31/11)

Each Mortgage to be delivered to Freddie Mac under the Targeted Affordable Housing Cash Mortgage Purchase Program must have characteristics that demonstrate investment quality as described in Section 10.7.

c. Types of Mortgages (03/03/14)

The provisions of Section 17.1(c) apply.

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

The provisions of Section 17.1(d) apply.

e. Delivery options (03/03/14)

The provisions of Section 17.1(e) apply.

f. Minimum Origination Fee (09/22/17)

The provisions of Section 17.1(f) apply.

g. Other requirements (03/31/11)

All Mortgages submitted for purchase under the Targeted Affordable Housing Cash Mortgage Purchase Program must comply with the requirements of Chapters 8, 9 and 10 as well as with the requirements of this chapter.

19.2 Mortgage requirements

a. Requirements applicable to all Targeted Affordable Housing Cash Mortgages (02/28/20)

The requirements below apply for all TAH Mortgages unless otherwise indicated in this Chapter 19.

1. Eligible Mortgages are as follows:

- Mortgages for the purpose of the refinancing or acquisition (including Preservation Rehabilitation Mortgages) of the Property are eligible.
- The term of the Mortgage must be from 5 to 35 years, except that for a LIHTC Mortgage, the minimum term is the lesser of 15 years or the remaining term of the LIHTC compliance period.
- A refinance test is not required for a Mortgage with a loan term and amortization period of 15 years or more; see Section 23.3(c) for refinance test requirements for Section 8 Mortgages.

- For amortizing Mortgages
 - The standard amortization period is 30 years.
 - The maximum amortization period is 35 years.
 - The minimum amortization period is 15 years.
 - Notwithstanding the above, Freddie Mac, in its discretion, will determine the amortization period of each Mortgage.
 - The Seller's Servicing Spread for each Mortgage will be negotiated with Freddie Mac and will be stated in the Commitment or early rate-lock application for that Mortgage.
2. Freddie Mac uses a vacancy and collection loss rate in underwriting that is generally not less than five percent, and is adjusted upward if property and/or market conditions require.

For a Property with government-subsidized units, the Multifamily TAH Underwriter may determine that a lower vacancy rate is applicable, as follows, if the Property has achieved a vacancy rate of three percent or less over the most recent three-year period and if Freddie Mac determines that the subsidy will not be terminated in the future:

- For a Section 8 Property, a vacancy rate between three and five percent may be applied to both the subsidized units and the tenant-paid portions of the rent.
 - For a LIHTC Property, a vacancy rate between four and five percent may be applied.
3. See the following sections of Chapter 17 for requirements applicable to all Mortgages under the Targeted Affordable Housing Cash Mortgage Purchase Program:
- Section 17.2(f): Prepayment provisions
 - Section 17.2(g): Yield Maintenance Prepayment Premium
 - Section 17.2(j): Sales or transfers of Property or beneficial interests in the Borrower
 - Section 17.2(l): Borrower recourse/third-party guaranties
 - Section 17.2(n): Reserves
 - Section 17.2(o): Co-op requirements
 - Section 17.2(p): Financing of origination fees
 - Section 17.2(q): Late charges and default interest

b. Fixed-rate Mortgages under the Targeted Affordable Housing Cash Mortgage Purchase Program (12/16/15)

A fixed-rate Mortgage must be amortizing but may include an interest-only feature for up to two years for the Preservation Rehabilitation product only. Interest-only payments are generally available when construction activity during the Preservation Rehabilitation period is extensive enough to disturb tenants and/or interrupt the income stream of the Property.

c. Floating rate Mortgages under the Targeted Affordable Housing Cash Mortgage Purchase Program (05/05/17)

The following requirements in Chapter 17 apply only to floating rate Mortgages under the Targeted Affordable Housing Cash Mortgage Purchase Program:

- Section 17.3(a): Interest rate calculation
- Section 17.3(b): Term
- Section 17.3(c): Prohibition against prepayment
- Section 17.3(d): Prepayment premium
- Section 17.3(f): Late charges and default interest

d. Additional underwriting requirements for cash purchases of Mortgages with 9% LIHTC (06/29/17)

Freddie Mac purchases Mortgages used for the acquisition or refinancing of a Property that has received a 9% LIHTC allocation. Additional LIHTC requirements are outlined below.

1. Property and Borrower Principal

The Borrower Principals must be able to demonstrate experience in the development and operation of LIHTC properties. The Property must be LIHTC-eligible and must attain 90 percent occupancy for the 90 days prior to the Origination Date.

2. LIHTC syndicator

The LIHTC syndicator must have a demonstrated track record with properties comparable to the Property in scale, complexity and regulatory compliance requirements. The Seller/Servicer must submit the LIHTC syndicator's recapture history over the past five years.

3. Underwriting gross potential rent (GPR) for LIHTC units

For LIHTC units, Freddie Mac uses the lower of achievable rents or the maximum allowable LIHTC rent for each required income level and unit type. Freddie Mac also considers whether the Property will have an affordability gap; that is, whether the underwritten LIHTC rent is 10 percent or greater (on average) less than market rent. If the affordability gap is less than 10 percent, Freddie Mac will determine whether the

Property has other advantages that will enable it to compete successfully with properties that have no rent restrictions.

Because the maximum allowable LIHTC rent is equal to the gross maximum allowable LIHTC rent less a documented utility allowance, Freddie Mac will review the utility allowance calculation for each unit type. If the utility allowance increases during the underwriting period (prior to rate-lock), Freddie Mac will reflect this increase in the underwritten rent.

- For a LIHTC Property located in a market with no direct LIHTC comparables, Freddie Mac assesses local market conditions to determine the achievable rent at the Property.
- For LIHTC units, Freddie Mac may use higher rents if HUD has announced, in writing, an increase in the Area Median Income (AMI).

For units benefiting from other forms of subsidy, such as Section 8 or Section 236, see Sections 23.3 and 23.4, respectively.

e. Additional underwriting requirements for Preservation Rehabilitation with LIHTC (02/28/20)

Preservation Rehabilitation is designed to assist in the long-term preservation of affordable housing, providing an immediate execution for a Property with newly-issued LIHTC credits and a moderate level of planned renovations. Freddie Mac will underwrite the loan to include the entire cost of the anticipated rehabilitation prior to the commencement of rehabilitation. The proceeds can be used for the acquisition and rehabilitation of the Property.

A cash Mortgage with 9% LIHTC or 4% LIHTC is eligible for the Preservation Rehabilitation product. Additional requirements are outlined below.

1. Definition of Preservation Rehabilitation

Freddie Mac defines “Preservation Rehabilitation” as rehabilitation work costing no more than \$60,000 per unit. For a Cash Mortgage, all work must be completed and the Property must reach stabilization within 24 months of the Origination Date.

2. Property and Borrower Principal

The Borrower Principals must demonstrate experience in the rehabilitation of multifamily properties with tenants in place and must work with an experienced LIHTC syndicator.

3. Mortgage structure and security

Freddie Mac will underwrite the loan based on projected post-rehabilitation NOI, but requires additional collateral until stabilization to fund any gap between the level of debt the Property is able to support based on its current NOI and the Mortgage amount supported by the post-rehabilitation NOI. Freddie Mac will underwrite current income and expense and current NOI separately from post-rehabilitation income and expense and NOI.

The additional collateral held until stabilization must be either a cash escrow (the “Rehabilitation Reserve”) or a letter of credit from a bank listed on the Multifamily Approved Counterparty List, available on FreddieMac.com. The Rehabilitation Reserve or letter of credit must be sized to equal the post-rehabilitation portion of the Mortgage plus 45 days interest. The post-rehabilitation portion of the Mortgage equals the difference between the amount of the Mortgage and an imputed mortgage, sized using the current NOI and as-is market value.

The letter of credit cannot be secured by a lien on the Property, and it cannot expire earlier than 60 days after the term of the Preservation Rehabilitation period.

4. Payment type and interest rate type

- During the Preservation Rehabilitation period, up to two years of interest-only payment is available.
- Fixed, Floating or Float-to-Fixed (Flex TEL) are available. Flex TEL is a float-to-fixed execution that is unique to Preservation Rehabilitation. Flex TEL loans feature a variable rate during rehabilitation and convert to a fixed rate at the end of rehabilitation.

5. Maturity risk analysis

The refinance test is not required for a Mortgage with a loan term and amortization period of 15 years or more. However, if the Mortgage is underwritten with an excess rent component (also referred to as “HAP Overhang”), then the Mortgage must pass a refinance test, regardless of the term of the Mortgage.

6. Loan sizing

The following DCR and LTV requirements apply to underwriting on an as-is or as-stabilized basis:

- 4% LIHTC
 - 1.15x, or if variable rate with an interest rate cap, 1.20x
 - 90 percent of market value, or if variable rate with an interest rate cap, 85 percent
- 9% LIHTC
 - 1.15x
 - 90 percent of market value

7. Guaranties

The Borrower must provide Freddie Mac with a guaranty of completion for the rehabilitation work to be done and an operating deficit guaranty for the term of the rehabilitation plus the length of any post-rehabilitation lease-up required.

8. Reserves (escrows)

Freddie Mac requires a Replacement Reserve and Reserves for the payment of real estate taxes and insurance premiums.

Separate Reserves for Priority Repairs and/or Green Improvements may be waived if work is included in the proposed rehabilitation budget. See paragraph 9 below for additional information.

9. Rehabilitation permitted

The rehabilitation work must cost no more than \$60,000 per unit.

Priority Repairs, Operational Repairs and Green Improvements may be included in the rehabilitation work budget provided they are clearly delineated. If included in the rehabilitation work budget, timing requirements found elsewhere in the Guide for Priority Repairs, Operational Repairs and Green Improvements are not applicable for Preservation Rehabilitation Mortgages. Instead, the time limits for the rehabilitation work will apply.

10. Tenant displacement

The Borrower must demonstrate no significant disruption to income during the rehabilitation process. Freddie Mac will review the Borrower's rehabilitation plan and assess the impact to the DCR during rehabilitation; at Freddie Mac's discretion, tenants may be displaced temporarily. However, the work must not displace a significant number of tenants from their units for a material amount of time or for a period of time long enough to trigger non-payment of rent that would cause the Property's income to suffer material decline.

11. Documentation

Freddie Mac may request renovation documentation as part of the underwriting package. See Section 55.2 for a description of renovation documentation.

The Appraisal must include the following four values:

- The as-is market value, with restricted rents
- The as-is market value, without restricted rents
- The hypothetical as-if renovated and stabilized today market value with restricted rents
- The hypothetical as-if renovated and stabilized today market value without restricted rents

See Section 60.28 for additional requirements for Appraisals for Preservation Rehabilitation Mortgages.

Additional requirements for documentation may be specified in the Rehabilitation Escrow Agreement; see paragraph 14 below.

12. Construction monitoring

Freddie Mac requires the rehabilitation to be monitored by a licensed architect/engineer, who may be a member of the Seller/Servicer's staff or a third party consultant.

13. Rehabilitation Escrow Agreement

The Borrower must enter into a Preservation Rehabilitation Escrow Agreement based on a scope of rehabilitation work that Freddie Mac approves. The Preservation Rehabilitation Escrow Agreement may be in the form of a rider to the Loan Agreement or a Continuing Covenant agreement depending on the loan product type. The agreement will

- Establish the scope of the rehabilitation work as well as the requirements for the release of loan proceeds and other funds during the rehabilitation
- Specify third party reports and documentation
- Include Borrower obligations
- Allow for monitoring by the Seller/Servicer and Freddie Mac during rehabilitation
- Provide terms for release of the Rehabilitation Escrow, if applicable

14. Payment and performance bonds

Payment and performance bonds are required under either of the following circumstances:

- If the general contractor used to complete the construction work is unrelated to the Borrower
- If the general contractor is related to the Borrower and will use subcontractors for major elements of the rehabilitation, including:
 - Replacing heating boilers or air chillers
 - Replacing plumbing or electrical systems
 - Site grading
 - Roof replacement
 - Window replacement
 - Environmental remediation

Requirements for the payment and performance bonds are as follows:

- They must be on a form acceptable to Freddie Mac
- They must cover 100 percent of the amount of the applicable construction contract
- The surety must be licensed through the State in which it operates
- The surety must have a rating of at least A-9 from A.M. Best Company, Inc. or an equivalent rating from a comparable ratings agency
- The Seller/Servicer, together with its successors and assigns, must be named a dual obligee

Payment and performance bonds may not be required if all construction monitoring requirements remain in place and any of the following conditions are met:

- The amount of the construction contract represents less than 15 percent of the UPB
- The LTV of the Mortgage is 65 percent or less
- Cash or a letter of credit in the amount of 15 percent of the total construction contract is provided, and the letter of credit counterparty is acceptable to Freddie Mac

f. Additional underwriting requirements for TAH Mortgages with subordinate debt (04/27/18)

Freddie Mac will consider subordinate debt subject to the requirements below. The terms acceptable to Freddie Mac will vary based on the nature of the entity providing the subordinate debt. All subordinate lenders (providing hard subordinate debt or soft subordinate debt, as defined below) must execute the Freddie Mac form of subordination agreement appropriate to the nature of the entity providing the subordinate debt.

Permitted lenders include Governmental Entities and Nonprofit Entities. If the proposed third-party subordinate debt lender is not a Governmental Entity or a Nonprofit Entity, the Seller/Servicer must contact its Freddie Mac representative.

Freddie Mac distinguishes between two types of subordinate debt, as follows:

- “Hard subordinate debt” is debt that is similar, but junior, to TAH Mortgage debt in payment structure and is secured by a subordinate mortgage on the Property. The subordinate mortgage gives the lender the ability to exercise remedies in the event of a monetary or non-monetary default of the subordinate debt.
- “Soft subordinate debt” is (i) debt for which there is no debt service payable during the term of the TAH Mortgage(s) or (ii) debt that is payable only from available cash flow. The subordinate lender may have the ability to exercise remedies if the borrower incurs a monetary or non-monetary default. Soft subordinate debt may be secured by a subordinate mortgage on the Property.

1. Hard subordinate debt

- The minimum combined amortizing DCR is 1.10x.
- For a subordinate lender that is a Governmental Entity or a Nonprofit Entity, the maximum combined LTV is 100 percent. For a subordinate lender that is not a Governmental Entity or a Nonprofit Entity, the maximum combined LTV is 90 percent.
- Hard subordinate debt must mature at least six months after the maturity date of the last maturing TAH Mortgage.
- Interest on hard subordinate debt may not accrue.

2. Soft subordinate debt

- There is no preset minimum combined DCR or maximum combined LTV.
- Soft subordinate debt must mature at least six months after the maturity date of the last maturing TAH Mortgage.
- Any payment of debt service on soft subordinate debt must not, in the aggregate, exceed 75 percent of surplus cash flow after the payment of operating expenses, Replacement Reserve contributions, contributions to Reserve accounts (for example,

Reserves for taxes and insurance), and debt service on the TAH Mortgage(s).

- Unpaid interest may accrue, but only on a simple interest basis.

g. Additional underwriting requirements for Bridge to Resyndication cash Mortgages (12/17/19)

The Bridge to Resyndication offering provides a short-term cash loan for the purpose of acquiring or refinancing a Property and completing the LIHTC resyndication process. During the term of the Mortgage, the Borrower must apply for and receive a new allocation of LIHTCs. The following underwriting requirements amend and supplement the requirements for TAH Cash Mortgages:

1. Maximum term

The maximum term is two years with one 6-month extension based on the Borrower's request and granted at the discretion of the lender. Freddie Mac will base its approval of the request on the progress made toward LIHTC resyndication.

2. Borrower and Borrower Principal

The Borrower must be a highly experienced LIHTC developer/owner who has successfully completed multiple resyndications using 4% LIHTC and tax-exempt debt. A Borrower Principal with less than three years of ownership must have 15 percent or more of cash equity.

3. Property eligibility

A stabilized property with LIHTC-eligible rent levels and evidence of LIHTC-eligible tenancy is eligible for the Bridge to Resyndication product. Most eligible properties will be LIHTC properties at or nearing the end of their compliance period.

The Borrower must provide evidence that a public agency with authority to issue bonds has sufficient tax-exempt bond or loan availability to meet the allocation needs of the anticipated LIHTC resyndication and has a highly predictable process for that allocation.

Upon delivery of the final underwriting package, the Borrower must provide evidence of the Property's eligibility for 4% LIHTC per the known guidelines of the State in which the Property is located.

4. Payment type and interest rate type

- Full term interest only payments are available
- Floating rate, uncapped interest is available

5. Loan sizing

See the Bridge to Resyndication term sheet posted on FreddieMac.com.

6. Reserves

Freddie Mac requires

- Reserves for the payment of real estate taxes, insurance premiums and Priority Repairs
- A Replacement Reserve to be calculated based on a 7+2-year term.

7. Additional considerations

For the following items, the Loan Documents will stipulate performance benchmarks that must be reached within the Mortgage term and the dates for achieving the benchmarks:

- Bond inducement resolution
- The 4% tax credit allocation
- Preliminary plans, specifications and budget for rehabilitation, in sufficient detail to enable Freddie Mac to understand the extent of the rehabilitation work
- LIHTC investor commitment
- Commitments from all other sources necessary to close the LIHTC resyndication

19.3 Underwriting and prescreen package requirements (02/28/13)

See the following for information regarding the content of the prescreen and underwriting packages:

- Section 19.5, Standard delivery – prescreen package
- Section 19.7, Standard delivery – full underwriting package
- Section 19.11, Early rate-lock delivery option – prescreen package
- Section 19.13, Early rate-lock delivery option – preliminary underwriting package
- Section 19.17, Early rate-lock delivery option – full underwriting package

Instructions for preparing the prescreen package and 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 prescreen, preliminary or full underwriting package before receipt of the Quote, the early rate-lock application or the Commitment, as appropriate.

19.4 Delivery options (03/31/11)

There are two delivery options available for Targeted Affordable Housing Cash Mortgages: the standard delivery option and the early rate-lock delivery option.

With the standard delivery option, the Mortgage terms, conditions and interest rate are fixed after receipt and approval of the full underwriting package. For detailed information about standard delivery, see Sections 19.5 through 19.10.

With the early rate-lock delivery option, the Mortgage terms, conditions and interest rate are fixed after Freddie Mac's prescreen process and preliminary underwriting, but prior to receipt and approval of the full underwriting package. For detailed information about the early rate-lock delivery option, see Sections 19.11 through 19.25.

19.5 Standard delivery option—prescreen package (07/01/14)

To initiate a transaction with Freddie Mac, the Seller must send a quote request to Multifamily TAH Production. After receiving the quote request, Freddie Mac will provide an indication price to the Seller. To continue with the transaction after receiving the indication price, the Seller must prepare the prescreen package. Freddie Mac specifies the list of documents that the Seller must include in the prescreen package in Section 1.25 of Exhibit 1.

Chapter 55 contains a complete description of Freddie Mac's requirements for each document in a prescreen package, including a description of the required content. Contact Multifamily TAH Production for instructions for delivering prescreen packages to Freddie Mac.

The prescreen package must be approved and signed by the Seller's TAH Underwriting Supervisor, as described in Section 3.13.

19.6 Standard delivery option—Quote

a. Quote (03/31/11)

If the Mortgage presented in the prescreen package appears to meet the requirements of the Targeted Affordable Housing Cash Mortgage Purchase Program, Freddie Mac will issue a written Quote and will advise the Seller in writing that Freddie Mac is interested in receiving a full underwriting package. The written Quote will contain the proposed maximum Mortgage amount, indication spread, term, amortization period (if applicable) and prepayment terms as well as other Freddie Mac requirements in response to the information contained in the prescreen package.

b. Indication spread (03/31/11)

Freddie Mac will add the "indication spread" utilized in a Quote to the yield on the specified benchmark security in order to communicate an indication interest rate to the Seller. Freddie Mac bases the indication spread on preliminary information about the proposed transaction and, in its sole discretion, Freddie Mac may change the indication spread.

c. Obligations of the parties (03/31/11)

Issuance of a Quote will not obligate the Seller to submit a full underwriting package or obligate Freddie Mac to purchase the proposed Mortgage.

19.7 Standard delivery option—full underwriting package (10/14/16)

After Freddie Mac issues a Quote, the Seller may deliver a full underwriting package to Freddie Mac. Upon the delivery of the full underwriting package, a nonrefundable application fee in the

amount of the greater of \$3,000 or 0.1 percent of the proposed Mortgage amount will be deemed earned by Freddie Mac and will be payable by the Seller as set forth in Section 19.8(e).

Freddie Mac specifies the list of documents that the Seller must include in the full underwriting package sent to Freddie Mac in Section 1.1 of Exhibit 1, which applies to Mortgages purchased under the Targeted Affordable Housing Cash Mortgage Purchase Program using the standard delivery option.

Chapter 55 contains a complete description of Freddie Mac's requirements for each document in an underwriting checklist, including a description of the required content and whether the document must be certified. Chapter 55 also contains instructions for delivering underwriting packages to Freddie Mac.

The full underwriting package must be approved and signed by the Seller's TAH Underwriting Supervisor, as described in Section 3.13.

19.8 Standard delivery option—Commitment (03/31/11)

The Commitment represents Freddie Mac's offer to purchase a first Mortgage secured by an eligible multifamily Property as determined by Freddie Mac. The Commitment provides the purchase conditions applicable under a mandatory Purchase Contract.

a. Issuance of the Commitment (10/14/16)

After the Seller submits a full underwriting package meeting the requirements of Section 19.7, Freddie Mac will determine if the Mortgage is acceptable for purchase.

If the contemplated Mortgage is acceptable, Freddie Mac will issue a Commitment stating the maximum Mortgage amount, the maximum annual debt service (principal and interest or interest-only), loan term and amortization period (if applicable), and all additional conditions that must be satisfied before Freddie Mac purchases the Mortgage. If Freddie Mac determines that it will not issue a Commitment for any reason, Seller must remit the application fee as set forth in Section 19.8(e).

The Commitment is valid for the period of time stated in the Commitment. If the Seller fails to accept the Commitment offer within that stated time period, the Commitment will automatically expire, Freddie Mac will not be obligated to purchase the Mortgage under any conditions and the Seller must remit the application fee as set forth in Section 19.8(e). The Commitment will automatically incorporate by reference the terms set forth in Section 27.3, as applicable.

b. Seller acceptance (03/31/11)

The Seller may accept the Commitment by following the procedures set forth in the Commitment.

After the Seller executes the Commitment, the Seller may not transfer, assign or otherwise modify the Commitment without Freddie Mac's prior written approval.

c. Locking the interest rate and fixing Mortgage amount and terms (10/14/16)

The Seller may lock the interest rate and fix the actual Mortgage amount and terms only after the Seller accepts the Commitment.

In the Commitment, Freddie Mac will express the Required Net Yield for a Mortgage as a specified number of basis points (net spread) above the yield for a designated benchmark US Treasury Security.

The Seller will use the specified net spread plus the actual yield for the designated benchmark US Treasury Security on the date and time the Seller locks the interest rate to determine the Required Net Yield for the Mortgage. The Coupon Rate for the Mortgage will be the Freddie Mac Required Net Yield plus the applicable Servicing Spread.

The Seller may lock the interest rate and fix the Mortgage amount and terms for a fixed-rate Mortgage within the time period set forth in the Commitment by telephoning the *Multifamily TAH Underwriter* during the time set forth in the Commitment. Freddie Mac will confirm the current yield on the applicable benchmark US Treasury Security at the time of the call. The Seller must then confirm the following:

1. The caller's name and title;
2. Seller/Servicer name and number;
3. Property name, address and location;
4. Mortgage term, amortization period (if applicable) and yield maintenance period (if applicable);
5. Mortgage amount;
6. The locked Mortgage Coupon Rate, Freddie Mac Accounting Net Yield and Servicing Spread; and
7. Actual annual debt service amount (principal and interest or interest-only).

Freddie Mac may record this telephone conversation.

Since the Note for an ARM will provide for interest to accrue at variable rates throughout the term of the Mortgage, the interest rate is not and cannot be fixed by the Commitment. Therefore, there is not a procedure for “locking the interest rate” under the Commitment for an ARM. References to “locking the interest rate” or “interest rate lock” mean the acceptance of the Commitment by the Seller.

If Seller fails to lock the interest rate within the time required in the Commitment, Seller must remit the application fee as set forth in Section 19.8(e).

d. Freddie Mac liability for failure to lock the interest rate (03/31/11)

If Freddie Mac does not have access to MPS and/or “real time” market yields on the applicable benchmark US Treasury Security and as a result Freddie Mac is unable to

complete the interest rate lock at the time the Seller communicates its intent to interest rate lock, Freddie Mac will not be liable for any damages whether direct or consequential.

e. Application fee (04/30/19)

The nonrefundable application fee will be deemed earned by Freddie Mac at the earlier of delivery of the full underwriting package or 30 days after the date the Borrower executes the Seller Application, and will be payable by Seller by wire transfer to Freddie Mac as follows:

- (i) If the Seller locks the interest rate as described above, Seller must remit the application fee by 2:00 p.m. Eastern time on the second Business Day following interest rate lock.
- (ii) If Freddie Mac determines that it will not issue a Commitment for any reason, Seller must remit the application fee upon demand by Freddie Mac.
- (iii) If Freddie Mac issues a Commitment and Seller either fails to accept the Commitment or fails to interest rate lock within the time required in the Commitment, Seller must remit the application fee upon demand by Freddie Mac.

The Seller must obtain wire transfer instructions from Multifamily TAH Production or the Multifamily TAH Underwriter.

The Seller must send the wire transfer to the attention of *Multifamily Cash Management*. The wire transfer must reference the Property name, the Freddie Mac contact person in Production or Underwriting, and the Freddie Mac loan number.

f. Exhibit A to the Commitment (02/29/12)

After the Seller locks the rate as described above, Freddie Mac will deliver to the Seller a completed Exhibit A (Interest Rate Lock and Mortgage Terms Confirmation Sheet) to the Commitment. The Seller must execute and cause the completed Exhibit A to be received by Freddie Mac by the close of business on the second Business Day immediately following its receipt by the Seller.

Freddie Mac will treat any failure by the Seller to return the executed Exhibit A to Freddie Mac within two Business Days after rate lock as a nondelivery and may take any applicable remedial action permitted under Chapter 4 or Section 17.14 for such a breach of the Purchase Contract.

19.9 Standard delivery option—final delivery and funding (05/01/14)

Within the time specified in Exhibit A to the Commitment, the Seller must deliver to Freddie Mac all of the documents listed in the applicable Final Delivery Table of Contents provided on FreddieMac.com. The Seller must comply with the requirements for final delivery provided in Chapter 32 and the requirements in the Final Delivery Instructions, also found on FreddieMac.com.

After final delivery of a Mortgage, Freddie Mac will review the documentation and set the Freddie Mac Funding Date. See Section 32.1(c) for provisions relating to funding.

19.10 Standard delivery option—late delivery; nondelivery (02/29/12)

The provisions of Section 17.14 apply.

19.11 Early rate-lock delivery option—prescreen package (03/03/14)

To initiate a transaction with Freddie Mac, the Seller must send a quote request to Multifamily TAH Production. After receiving the quote request, Freddie Mac will provide an indication price to the Seller. To continue with the transaction after receiving the indication price, the Seller must prepare the prescreen package.

Freddie Mac specifies the list of documents that the Seller must include in the prescreen package in Section 1.25 of Exhibit 1.

Chapter 55 contains a complete description of Freddie Mac's requirements for each document in a prescreen package, including a description of the required content. Contact Multifamily TAH Production for instructions for delivering prescreen packages to Freddie Mac.

The prescreen package must be approved and signed by the Seller's TAH Underwriting Supervisor, as described in Section 3.13.

19.12 Early rate-lock delivery option—Quote

a. Quote (03/31/11)

If the Mortgage presented in the prescreen package appears to meet the requirements of the Targeted Affordable Housing Cash Mortgage Purchase Program, Freddie Mac will issue a written Quote and will advise the Seller in writing that Freddie Mac is interested in receiving a preliminary underwriting package. The written Quote will contain the proposed maximum Mortgage amount, indication spread, term, amortization period (if applicable) and prepayment terms as well as other Freddie Mac requirements in response to information contained in the prescreen package.

b. Indication spread (03/31/11)

Freddie Mac will add the "indication spread" utilized in a Quote to the yield on the specified benchmark security in order to communicate an indication interest rate to the Seller. Freddie Mac bases the indication spread on preliminary information about the proposed transaction and, in its sole discretion, Freddie Mac may change the indication spread.

c. Obligations of the parties (03/31/11)

Issuance of a Quote will not obligate the Seller to submit a preliminary underwriting package or obligate Freddie Mac to purchase the proposed Mortgage.

19.13 Early rate-lock delivery option—preliminary underwriting package (10/14/16)

After Freddie Mac issues a Quote, the Seller may deliver a preliminary underwriting package to Freddie Mac.

Freddie Mac specifies the list of documents that the Seller must include in the preliminary underwriting package sent to Freddie Mac in Section 1.1 of Exhibit 1, which applies to Mortgages purchased under the Targeted Affordable Housing Cash Mortgage Purchase Program using the early rate-lock delivery option.

Chapter 55 contains a complete description of Freddie Mac’s requirements for each document in an underwriting checklist, including a description of the required content and whether the document must be certified. Chapter 55 also contains instructions for delivering underwriting packages to Freddie Mac.

The preliminary underwriting package must be approved and signed by the Seller’s TAH Underwriting Supervisor, as described in Section 3.13.

19.14 Early rate-lock delivery option—good faith deposit

a. Cash good faith deposit (06/29/17)

For an early rate-lock application, the Seller/Servicer must collect and hold a good faith deposit in the amount specified in the early rate lock application. The good faith deposit will be held by Seller/Servicer in trust for Freddie Mac as security for all or a portion of the Seller/Servicer’s obligations under the early rate-lock application and the Guide. The good faith deposit must be held in a Custodial Account designated as follows:

1. “(Name of Depositor/Servicer), as custodian and/or bailee for Freddie Mac and/or various owners of interests in Mortgages”, or
2. The abbreviated designation “Freddie Mac GFD Custodial Account”

However, if the Seller/Servicer uses the abbreviated designation, then for all purposes of the Purchase and Servicing Documents and with respect to all rights and interests of Freddie Mac and/or various owners of interests in Mortgages, the abbreviated account designation will be deemed to be the same as the unabbreviated account designation and will be deemed to confer upon Freddie Mac and those persons the same rights and interests with respect to the good faith deposit Custodial Account and the funds deposited or held in the account.

b. Letter of credit good faith deposit (06/29/17)

With the approval of the *Multifamily TAH Underwriter*, the Seller/Servicer may hold a letter of credit in lieu of holding cash in the amount set forth in the early rate-lock application for all or a portion of the good faith deposit.

If the Seller/Servicer is holding a letter of credit, the Seller must obtain and hold an opinion of issuer's counsel and a complete and executed Letter of Credit Certification Form, in the form found on FreddieMac.com.

c. Reserved (06/29/17)

d. Refund of good faith deposits (06/29/17)

The good faith deposit may be released by the Seller/Service in accordance with Section 19.21.

19.15 Early rate-lock delivery option—early rate-lock application

a. Proceeding with the early rate-lock application (03/31/11)

If the Mortgage presented in the preliminary underwriting package appears to meet the requirements of the Targeted Affordable Housing Cash Mortgage Purchase Program, the Multifamily TAH Underwriter will inform the Seller that the Seller may proceed with Freddie Mac's early rate-lock application option. Freddie Mac must establish the Mortgage amount, loan term, amortization period (if applicable), indication net spread, servicing fee, prepayment terms and nonstandard provisions pertaining to a specific transaction (if any) prior to the Seller's submission of the early rate-lock application.

b. Preparing the early rate-lock application (10/14/16)

Freddie Mac will provide the early rate-lock application form to the Seller. The early rate-lock application will incorporate by reference the provisions set forth in Section 27.3, as applicable.

19.16 Early rate-lock delivery option—interest rate-lock; good faith deposit and application fee (03/31/11)

When the Seller wishes to lock the interest rate and fix the key terms of the Mortgage, the Seller will notify the Multifamily TAH Underwriter. At such time, the Seller will send a copy of the early rate-lock application to Freddie Mac, with all provisions completed except those items that cannot be completed until the interest rate is locked, so that Freddie Mac can verify the terms and conditions of the early rate-lock application. Freddie Mac will inform the Seller whether the copy of the early rate-lock application is acceptable to Freddie Mac.

a. Fixing the Mortgage amount and terms (03/31/11)

In the early rate-lock application, Freddie Mac will express the Required Net Yield for a Mortgage as a specified number of basis points (net spread) above the yield for a designated benchmark US Treasury Security. The Seller will use the specified net spread plus the actual yield for the designated benchmark US Treasury Security on the date and time the Seller locks the interest rate to determine the Required Net Yield for the Mortgage. The Coupon Rate for the Mortgage will be the Freddie Mac Required Net Yield plus the applicable Servicing Spread.

b. Locking the interest rate (02/29/12)

The Seller may lock the interest rate and fix the Mortgage amount and terms for a fixed-rate Mortgage within the time period set forth in the early rate-lock application by telephoning the Multifamily TAH Underwriter during the time period set forth in the early rate-lock application. Freddie Mac will confirm the current yield on the applicable benchmark US Treasury Security at the time of the call. The Seller must then confirm the following:

1. The caller's name and title;
2. Seller/Servicer name and number;
3. Property name, address and location;
4. Mortgage term, amortization period (if applicable) and yield maintenance period (if applicable);
5. Mortgage amount;
6. The locked Mortgage Coupon Rate, Freddie Mac Required Net Yield and Servicing Spread; and
7. Actual annual debt service amount (principal and interest or interest-only).

Freddie Mac may record this telephone conversation.

Since the Note for an ARM will provide for interest to accrue at variable rates throughout the term of the Mortgage, the interest rate is not and cannot be fixed by the early rate lock application. Therefore, there is not a procedure for “locking the interest rate” under the early rate-lock application for an ARM. References to “locking the interest rate” or “interest rate lock” mean the submission of the early rate-lock application by the Seller.

c. Freddie Mac liability for failure to lock the interest rate (03/31/11)

If Freddie Mac does not have access to MPS and/or “real time” market yields on the applicable benchmark US Treasury Security and as a result Freddie Mac is unable to complete the interest rate lock at the time the Seller communicates its intent to interest rate lock, Freddie Mac will not be liable for any damages whether direct or consequential.

d. Executing the early rate-lock application (02/29/12)

The Seller must execute the early rate-lock application prior to interest rate-lock. After interest rate-lock, the Seller must execute Exhibit A to indicate acceptance of the rate-lock terms. The Seller must submit the executed early rate-lock application and the executed Exhibit A to Freddie Mac using the procedures set forth in the early rate-lock application.

Freddie Mac will treat any failure by the Seller to return the executed Exhibit A to Freddie Mac within two Business Days after rate lock as a nondelivery and may take any applicable remedial action permitted under Chapter 4 or Section 17.25(d) for such a breach of the Purchase Contract.

e. Collecting and confirming receipt of the good faith deposit (06/29/17)

The Seller must collect and hold the good faith deposit in accordance with Section 19.14. Within two Business Days following interest rate-lock, the Seller/Servicer must upload to DMS confirmation of the receipt by Seller/Servicer of the good faith deposit in the amount required under the early rate-lock application. If all or a portion of the good faith deposit is a

letter of credit, then Seller/Servicer must also upload to DMS within two Business Days following interest rate-lock a copy of the letter of credit, together with a copy of the Letter of Credit Certification Form and the opinion of issuer's counsel required under Section 19.14(b).

f. Application fee (06/29/17)

Upon interest rate-lock, a nonrefundable application fee will be deemed earned by Freddie Mac. The amount of the application fee will be as specified in the early rate-lock application. The Seller must remit the application fee by wire transfer by 2:00 p.m. Eastern time on the second Business Day following interest rate-lock.

19.17 Early rate-lock delivery option—full underwriting package (10/14/16)

Within the timeframe specified in the application, the Seller must deliver the early rate-lock full underwriting package to Freddie Mac.

Freddie Mac specifies the list of documents that the Seller must include in the full underwriting package sent to Freddie Mac in Section 1.1 of Exhibit 1, which applies to Mortgages purchased under the Targeted Affordable Housing Cash Mortgage Purchase Program using the early rate-lock delivery option.

The full underwriting package must include any document included in the preliminary underwriting package for which there is a material change. For a complete description of Freddie Mac's requirements for each document, including a description of the required content and whether the document must be certified, see Chapter 55. Chapter 55 also contains instructions for delivering underwriting packages to Freddie Mac.

The full underwriting package must be approved and signed by the Seller's TAH Underwriting Supervisor, as described in Section 3.13.

19.18 Early rate-lock delivery option—failure to deliver items after rate-lock (03/31/11)

The provisions of Section 17.20 apply.

19.19 Early rate-lock delivery option—acceptance or rejection of early rate-lock application (03/31/11)

The provisions of Section 17.21 apply.

19.20 Early rate-lock delivery option—Purchase Contract (03/31/11)

The provisions of Section 17.22 apply.

19.21 Early rate-lock delivery option—release of good faith deposit (06/29/17)

The provisions of Section 17.23 apply.

19.22 Early rate-lock delivery option—final delivery (03/31/11)

The provisions of Section 17.24 apply.

19.23 Early rate-lock delivery option—late delivery; nondelivery (03/31/11)

The provisions of Section 17.25 apply.

19.24 Right to demand delivery of letter of credit (06/29/17)

If the Seller/Servicer is holding a letter of credit as all or part of the good faith deposit, Freddie Mac may demand delivery of the letter of credit at any time

- If the Seller fails to provide evidence to Freddie Mac of renewal or replacement of the letter of credit at least 30 days prior to the expiration of the letter of credit, or
- If Freddie Mac is entitled to retain a late delivery extension fee or the Seller breakage fee.

Upon demand by Freddie Mac, the Seller must deliver the letter of credit to the Multifamily TAH Underwriter by hand or overnight courier, for delivery on the Business Day following demand by Freddie Mac, together with the Letter of Credit Certification form and opinion required under Section 19.14(b). Upon receipt by Freddie Mac of the Letter of Credit, Freddie Mac may draw upon all or a part of the letter of credit at any time and without notice to the Seller.

19.25 Early rate-lock delivery option—accuracy of information (03/31/11)

The requirements of Section 17.27 apply.