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19.3 Delivery options; approval by TAH Underwriting Supervisor (04/15/21)

19.1 Overview (09/28/18)

a. Program and related products (09/28/18)

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 TEL Mortgages – 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 (02/27/25)

a. Requirements applicable to all Targeted Affordable Housing Cash Mortgages (04/13/23)

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 as follows: (a) a Mortgage for a LIHTC Property must have a minimum term that is the lesser of 15 years or the remaining term of the LIHTC compliance period; and (b) a Preservation Rehabilitation Mortgage for a Non-LIHTC Property must have a term between 5 and 15 years.

   - 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; except for a Preservation Rehabilitation Mortgage for a Non-LIHTC Property for which the maximum amortization period is 30 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 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 LIHTC (06/15/23)

Freddie Mac purchases Mortgages used for the acquisition or refinancing of a Property that has received a 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 2.36, see Sections 23.3 and 23.4, respectively.

e. Additional underwriting requirements for Preservation Rehabilitation (02/27/25)

Preservation Rehabilitation is designed to assist in the long-term preservation of affordable housing, providing an immediate execution for a Property that requires a moderate level of planned renovations. The following Property types are eligible: (a) Properties with newly issued LIHTC (both 4% and 9%), and (b) Non-LIHTC Properties.

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, 4% LIHTC or a Non-LIHTC Property 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, if applicable, 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](). The Rehabilitation Reserve or letter of credit must be sized to equal the post-rehabilitation portion of the Mortgage. The amount of the additional collateral is sized as the difference between the UPB supported by the "as-stabilized" NOI and the UPB supported by the "as-is" NOI.

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. The letter of credit must comply with the requirements of the Guide and the Loan Documents.

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

See the Preservation Rehab term sheet.

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 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 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 TAH Bridge Loans (06/15/23)

TAH Bridge Loans include: (a) Bridge to Resyndication Mortgages, (b) Bridge to Syndication Mortgages, and (c) Non-LIHTC Bridge Mortgages. All of these TAH Bridge Loan offerings provide short-term cash loans for the purpose of acquiring or refinancing a Property and either: (a) completing the LIHTC resyndication process, (b) completing the LIHTC syndication process or (c) positioning the Property for long-term Non-LIHTC financing. 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 Freddie Mac. Freddie Mac will base its approval of the request on the progress made toward LIHTC resyndication, syndication or Non-LIHTC financing, as applicable.

2. Borrower and Borrower Principal

Borrowers must meet the following requirements:

- **Bridge to Resyndication** Mortgage: The general partner or managing member, as applicable, of the Borrower must be a highly experienced LIHTC developer/owner who has successfully completed multiple resyndications using 4% LIHTC and tax-exempt debt.

- **Bridge to Syndication** Mortgage: The general partner or managing member, as applicable, of the Borrower must be a highly experienced LIHTC developer/owner who has successfully completed multiple syndications or resyndications using 4% LIHTC and tax-exempt debt.

- **Non-LIHTC Bridge** Mortgage: The general partner or managing member, as applicable, of the Borrower must have financial capacity in an amount required by lender and have successfully completed multiple property rehabilitations on rent/income restricted properties or Naturally Occurring Affordable Housing properties.

Borrower Principals for each product above with less than three years of ownership must have 15 percent or more of cash equity.

3. Property eligibility

(i) Bridge to Resyndication and Bridge to Syndication Mortgages

Bridge to Resyndication and Bridge to Syndication Mortgages must meet the requirements provided in the table below:

Product	Property	Borrower	Evidence of 4% LIHTC eligibility
Bridge to Resyndication	Must be stabilized with LIHTC-eligible rent levels and evidence of LIHTC-eligible tenancy. 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 volume cap to meet the allocation needs of the anticipated LIHTC resyndication or syndication 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.
Bridge to Syndication	Must either be stabilized with LIHTC-eligible rent levels and evidence of LIHTC-eligible tenancy, or plan to obtain tax credits to complete rehabilitation.		

(ii) Non-LIHTC Bridge Mortgages

The Property must meet the affordability requirements for the market that it is located in, as determined by Freddie Mac, and must have Non-LIHTC financing sources acceptable to Freddie Mac as described in the TAH Bridge Loan term sheet or meet the Freddie Mac Preservation definition. The Property may require moderate rehabilitation; however, the only construction that may be completed during the term of the Non-LIHTC Bridge Mortgage would be any required life-safety repairs or material deferred maintenance.

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 TAH Bridge Loan term sheet.

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:

- **Bridge to Resyndication or Bridge to Syndication Mortgages**
  - 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 or syndication
- **Non-LIHTC Bridge Mortgages**
  - Draft commitments from anticipated Non-LIHTC financing sources, due no later than the end of the last full calendar year prior to maturity
  - Preliminary plans, specifications and budget for rehabilitation, in sufficient detail to enable Freddie Mac to understand the extent of the rehabilitation work, due no later than the end of the last full calendar year prior to maturity
  - Final commitments from all Non-LIHTC sources at least 60 days prior to the loan maturity date

19.3 Delivery options; approval by TAH Underwriting Supervisor (04/15/21)

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

For Targeted Affordable Housing Cash Mortgages, the applicable provisions of Chapter 27 apply with respect to each of these options, provided that, notwithstanding anything in Chapter 27 to the contrary, the LST, the preliminary underwriting package and the full underwriting package, as applicable, must be approved and signed by the Seller's TAH Underwriting Supervisor, as described in Section 3.13.