

Conventional Small FAQs

Pricing and Structure

- *Will there be a separate pricing grid?*
Conventional Small indicative pricing is included in the weekly pricing emails.
- *What stepdown prepays will be available?*
5,4,3,2,1 and all corresponding variants, depending on the loan term, are available in Conventional Small. Reach out to your regional Conventional Small Production team for the latest pricing.
- *Is the interest calculation 30/360, actual/360 or can we choose like on Conventional?*
Yes, each of those interest calculations will be available and can be selected the same way as all other Conventional loans.

Production

- *Is the max buy-up of 2% inclusive of the origination fee?*
No, the 2% maximum is solely for the buy-up.
 - *What is the minimum fee (inclusive of origination & buy-up)?*
Please see minimum origination fees in Chapter 17 of the guide.
 - *What exactly is the automatic buy-up? Does this automatically get applied to the rate or can the lender not apply these to lower the rate?*
The automatic buy-up means that your quote already includes a 0.25% buy-up outside of what you would like to include for buy-up. This 0.25% is factored into the 2.0% maximum and the 0.25% cannot be removed to reduce the rate.
 - *Will there be Conventional rate buydowns?*
Yes, buydowns are available.
 - *What is the timeline from quote request to application?*
Lenders will see quote times similar to other Conventional deals, however the timeline from quote request to lender issuing their application will depend on the information provided at the time of quote request, and how quickly any questions
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are answered. For us to process quotes quickly, please ensure that all submissions are detailed, thorough, and complete.

- *Extended delivery option? Conventional has standard, 90, 120 and 180 days. Are there adders and if so, what are they?*

Extended delivery will also be available. Adders will be in line with all other Conventional transactions and will be delineated in the quote.

- *What is the index lock breakage amount?*

Minimum of 0.50%, and up to 3%, depending on market movement.

- *Does the borrower/Optigo lender have the option to have a loan be quoted as a Conventional Loan rather than as Conventional Small if there is a preference for features that aren't available on conventional small (e.g., floating rate quote, doc mods, etc.)?*

Loans that are less than \$10MM will generally be processed via Conventional Small.

- *How should deals be processed if the loan amount is between the \$2MM and \$10MM threshold, but over 50 units?*

Deals \$2MM to \$10MM with greater than 50 units will still qualify as Conventional Small.

- *Can the 30 bps servicing fee be changed?*

No, the 30 bps servicing fee is fixed for all Conventional Small loans.

- *Will Freddie Mac production soft quote Conventional Small transactions?*

Lenders can refer to the weekly Market Color email for pricing guidance. If further details are needed, please reach out to your regional Conventional Small Production contact who can provide indicative pricing.

- *How will rate locks work?*

Rate locks will be live like any other Conventional deal.

- *What will the securitization path be?*

Like other Conventional loans, Freddie Mac will either put Conventional Small deals in K transactions or in PCs.

Underwriting

- *What is the expected turnaround time from full underwriting submission to rate lock? Will that fluctuate based on capacity like it does in Conventional?*

Turnaround times from full underwriting submission to rate lock should be on par with other Conventional turnaround times.

- *Will the minimum 10% vacancy for properties with 30 units or less be inclusive of bad debt & concessions? If we have supporting operations and market data will exceptions for less than 10% vacancy be considered?*

No, 10% is just for physical vacancy. Bad debt and concessions will be underwritten separately like all other transactions. Exceptions that are strongly supported by property operations and market data will be considered on a loan-by-loan basis.

- *Is the \$5MM minimum net worth in aggregate for all guarantors or does there need to be an individual with \$5MM net worth?*

This is on a combined basis. The same applies for the liquidity requirements. Overall, we expect guarantors to be financially strong MF owner operators and will review each transaction on a case-by-case basis.

- *What are the new liquidity requirements?*

The liquidity requirements are the same as all other Conventional loans: the greater of 10% of the loan amount or 100% of the annual debt service.

- *Can you please explain full term Interest Only (IO) guidelines (leverage) a bit more clearly?*

Full Term IO is available at different levels depending on sponsor profile, market, and asset performance. Please detail the requested quote terms in your submission and provide competitive intel to ensure the most competitive quotes.

- *Can you please explain the partial interest only guidelines*

Conventional Small will quote partial interest only deals with 2 years amortization and less than 70% Loan-to-Value (LTV) at maturity, on a case-by-case basis.

- *Is there a limit to the percentage of commercial space usage? In Small Balance Loans (SBL) there was a 40% threshold, will that still be the same?*

Eligible properties need to be primarily Multifamily in nature and can have some commercial component, in line with all other Conventional loans.

- *Will Freddie be holding back reserves for replacements?*
Yes, escrows will be funded based on the amount determined within the physical risk assessment of capital needs over the loan term.
 - *Will all deals (even those under \$5MM) require an Single Purpose Entity (SPE) Borrower? Will it need to be newly formed for our transaction on a refi?*
Yes, SPE borrowers will be required on all Conventional Small transactions. Refinances can utilize an existing SPE as long as it meets all Guide requirements.
 - *What is the threshold for student, corporate or single employer tenants to be able to run through Conventional Small?*
Concentrations will have the same guidelines as all other Conventional loans.
 - *Will formerly Small and Very Small markets for SBL revert to their 1.40x and 1.30x Debt Service Coverage Ratio (DSCR)?*
No, the Conventional baseline is 80%/1.25x. Each deal will be individually quoted, with any adjustments to LTV and DSCR baselines made at the time of quote.
 - *Will the Freddie inspection request process now be similar to Conventional?*
Yes, the inspection process will be similar other than the different requirements based on unit count, and best efforts to inspect the property prior to the submission of the full underwriting package. All Conventional Small transactions must be inspected prior to Index Lock.
 - *Will we be using Happyco for inspections?*
Yes, all inspections will use Happyco.
 - *What are the net worth and liquidity requirements for foreign and entity only guarantors?*
Foreign and entity only guarantors on Conventional Small transactions have the same requirements as Conventional; 2x the baseline net worth and liquidity. Foreign and entity only guarantor requests will be assessed at the time of quote.
 - *What escrows are required?*
Taxes, Insurance, and replacement reserves are all generally required.
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- *Can you clarify the Tenancy-in-common (TIC) requirements?*
There is a maximum of 5 TIC members, and they will be underwritten individually.
- *Will Conventional Small go down to a 1.20x DSCR in top markets on refinances like SBL did?*
No, the Conventional Small baseline is the same as Conventional at 1.25x. Top market designations from SBL are not in Conventional Small.
- *Will there still be a 90% occupancy for 90 days requirement?*
Yes, there is a 90 for 90 requirement like any other Conventional loan. Exceptions will be assessed on a case-by-case basis.

Legal

- *Will borrower's counsel have to provide opinion letters, or can those be waived for conventional small?*
Legal opinions with respect to Borrower, any SPE Equity Owner and Guarantor will be required in the same manner as they are in all other Conventional loans. This requirement is not subject to a waiver.
- *Is the borrower required to retain legal counsel?*
We will not be using Single Counsel for Conventional Small. Rather, Lenders are required to retain separate counsel (just like all other Conventional deals). Freddie Mac will be represented by its in-house regional counsel. Please note that Borrowers are responsible for retaining their own counsel.
- *Will there be approved counsel list for servicing Conventional Small?*
No, there is no approved counsel list for originating Conventional Small loans. Lenders are required to retain separate counsel (just like all other Conventional deals) and may engage counsel of their choice so long as they satisfy the qualifications set forth in Chapter 6 of the Guide.

Third Party Reports

- *It sounded like the combined Post-Construction Analysis (PCA) Report and Environmental Report are still being used. Will we avoid the extra zoning reports (radon testing, asbestos testing) as well with this product?*
A zoning report is required unless the appraiser can opine on the zoning analysis. Code violations are still required to be evaluated. Radon and asbestos testing will depend on the consultant's conclusions as well.
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- *Will we need a survey or can those be waived for Conventional Small if we can get the appropriate title insurance?*

Yes, surveys will be handled in the same manner as all other Conventional loans.

Miscellaneous

- *As a result of this change, will Pipeline Management Tool (PMT), and other related tools (SBL compliance tool, for example) go away?*

Yes, SBL specific tools will be retired as we transition to Conventional Small.

- *Will Conventional Small be designated as a separate product type in the Loan Submission Template (LST)?*

Conventional Small will be in the LST under additional Loan Attributes.

- *Will we waive the 1% prepay for existing SBL hybrid deals that are in their floating rate period but are now ineligible because they are less than \$2MM?*

No, the 1% prepay will not be waived on transactions that are financed through another lending source. SBL loans that are repaid with the proceeds of a Conventional or Conventional Small loan qualify for a waiver of the 1% prepay.

- *Does this mean more Manufacture Housing Community (MHC) loans will be accepted by Freddie Mac that are under \$5M?*

There is no change to the MHC subproducts or any of the other Conventional subproducts.

- *What does Low-Income (LI) 5-50 mean?*

LI 5-50 is low income (80% AMI) on properties that have between 5 and 50 units.

- *Is there a maximum unit count for Conventional Small?*

No, there is no maximum unit count limit for Conventional Small transactions.

- *Will we use our Conventional Seller Servicer number for Conventional Small deals?*

Yes.

- *What are insurance requirements going to look like in comparison to Conventional or SBL?*

Insurance requirements are the same as any other Conventional loan.

- *Will Conventional Small have different broker rules?*

All broker rules in the Guide are still applicable to Conventional Small.