

## Top 10 Tips for Supplemental Loans

### 1. Know the LTVs and amortizing<sup>1</sup> DCRs:

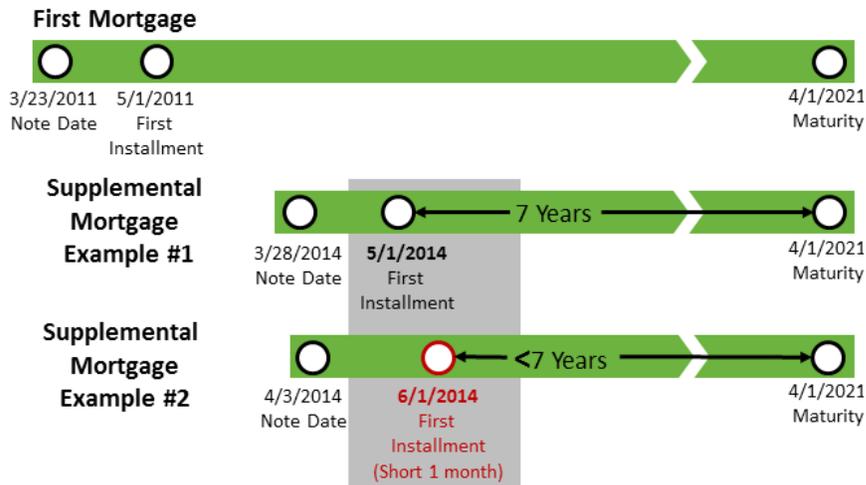
SUPPLEMENTAL LOAN <sup>2</sup> BASE MAXIMUM LTV AND MINIMUM DCR	Fixed-Rate LTV/DCR			Floating-Rate LTV/DCR (DCR at comparable fixed note rate)		
	Amortizing	Partial-Term Interest- Only <sup>3</sup>	Full-Term Interest- Only	Amortizing	Partial-Term Interest- Only <sup>3</sup>	Full-Term Interest- Only
≥ 5- and < 7-Year Term	75% / 1.30x	75% / 1.30x	65% / 1.40x	75% / 1.30x	75% / 1.30x	65% / 1.40x
7-Year Term	80% / 1.25x	80% / 1.25x	70% / 1.35x	80% / 1.25x	80% / 1.25x	70% / 1.35x
> 7-Year Term	80% / 1.25x	80% / 1.25x	70% / 1.35x	80% / 1.25x	80% / 1.25x	70% / 1.35x

<sup>1</sup> The DCR calculated for the partial-term interest-only and full-term interest-only period uses an amortizing payment.

<sup>2</sup> If fewer than 5 years is remaining on the first loan, add 5 bps to the DCR. If fewer than 3 years is remaining on the first loan, a supplemental is not allowed.

<sup>3</sup> For partial-term interest-only loans, there must be a minimum amortization period of 5 years for loans with terms greater than 5 years. Acquisition loans with 5-year terms may have up to 1 year of partial-term interest-only. For terms of 10 years or more, loans may have interest only in an amount equal to no more than half of the loan term.

2. **Term:** When the first loan has just over 7 years remaining, it is important to submit the loan in time to get the benefit of the 7-year sizing parameters (as sizing becomes more restrictive for loan terms less than 7 years). As shown below, closing dates impact LTV and DCR requirements. Example #1 would qualify for a 7-year term at a combined 80% LTV and 1.25x DCR, however, Example #2 would only qualify for a combined 75% LTV and 1.30x DCR, given the remaining term for the supplemental would be less than 7 years.



3. **Identify maximum combined LTV per loan documents:** The supplemental loan will be sized to the lesser of (a) the then-current policy baseline parameters or (b) the maximum LTV noted in the loan documents.
4. **Escrows:** All escrows are required for supplementals (i.e., replacement reserves and insurance) even if they were deferred on the first loan. Originating a supplemental usually also triggers collection of any deferred escrows on the first loan (check the loan documents on the first loan). Any escrow collected by the first loan Servicer is credited to the supplemental loan (i.e., there is no double collection). Note that if the supplemental requires a higher escrow amount, the original amount will be collected by the first loan Servicer and the difference will be collected by the supplemental loan Servicer.
5. **Origination and Underwriting System (OUS) upload issues:** It is imperative that the correct Loan Purpose and Loan Product Type are selected in the Loan Submission Template (LST):

	Loan Purpose	Loan Product Type
<b>Behind Securitized 1<sup>st</sup> Loan</b>	Acquisition	Conventional Cash
<b>Behind Portfolio 1<sup>st</sup> Loan</b>	Supplemental	Supplemental

See the [Enter Supplemental Data in LST 1.7](#) job aid on FreddieMac.com for more info.

6. **Refinance Test impacts:** When running the Refinance Test, use the current UPB of the first loan along with the remaining interest only and amortizing terms (i.e., if the first loan still has 1 year of interest only remaining, this needs to be reflected in the Test).
7. **Servicing calculation:** Per the *Multifamily Seller/Servicer Guide*, the servicing on a supplemental loan is based on the original UPB of the supplemental loan.
8. **Value increases:** Significant increases in value since the time of the first loan need to be addressed and explained (i.e., renovations increasing rents, recent cap ex that have reduced expenses, etc.). We are looking at net operating income growth and not just cap rate compression to support the supplemental loan.
9. **Third party reports:** The Property Condition Report is not automatically waived for a supplemental. This is at the discretion of the Regional Underwriter and should be requested and approved at the time of the Quote. A neighborhood hazardous waste activity review is acceptable in lieu of an environmental assessment report only if the conditions identified in the *Multifamily Seller/Servicer Guide*, Chapter 55.2, are met. The neighborhood hazardous waste activity information must be obtained and reviewed by a qualified consultant. Appraisals are required for all supplementals.
10. **Commitment timing:** The Commitment will not be issued until we have received final Servicer approval.