

Third-Party Climate Financing



Supercharge your loan at origination with third-party climate subordinate debt

New funding sources are being introduced into the marketplace, giving borrowers access to capital for property improvements to reduce energy consumption and emissions, as well as strengthen the property's resilience to climate impacts.

Freddie Mac supports borrowers' efforts to improve their properties. To make this easier, we've created a framework to pair third-party subordinate debt from nonprofits and governmental entities ("**Climate Financing**") with a Freddie Mac senior mortgage.

The Freddie Mac Difference

When it comes to multifamily finance, Freddie Mac gets it done. We work closely with our Optigo® lenders to tackle complicated transactions, provide certainty of execution and fund quickly. Contact your Freddie Mac Multifamily representative today — we're here to help.

Framework Snapshot

- Climate Financing must be subordinate debt and may only be provided by nonprofit and governmental entities.
- Freddie Mac permits Climate Financing for improvements to reduce energy consumption and emissions, as well as strengthen the property's resilience to climate impacts. These may include improvements that:
 - Reduce emissions of greenhouse gases or other energy-related pollutants
 - Improve indoor and outdoor air quality
 - Generate renewable energy
 - Improve utility efficiency
 - Retrofit properties to protect against flooding or seismic events
 - Upgrade electrical systems
 - Improve sealants and/or insulation.

► Conventional, Targeted Affordable

Product Details	
Eligible Providers	<ul style="list-style-type: none"> • Nonprofits, including sub-grantors of nonprofit Community Development Financial Institutions (CDFIs) • Governmental entities or parties authorized by governmental entities
Eligible Properties	Must meet the requirements of the associated Freddie Mac senior mortgage.
Eligible Loans	<ul style="list-style-type: none"> • Climate Financing must be paired with a Freddie Mac senior mortgage. <ul style="list-style-type: none"> • The terms of this subordinate debt must be provided to Freddie Mac at quote. <ul style="list-style-type: none"> • All documentation for this subordinate debt must be provided to Freddie Mac no later than the submission deadline for the full underwriting package. • The subordinate debt maturity date must be at least six months after the maturity date of the Freddie Mac senior mortgage. • Transactions where the improvements associated with this subordinate debt are completed but the subordinate debt loan is outstanding are permitted. • If the subordinate debt is being originated in conjunction with the Freddie Mac senior mortgage, it must close no later than 45 days after the origination of the Freddie Mac loan. • Conventional and Targeted Affordable Housing (TAH) • Fixed- or floating-rate execution • Not permitted on supplemental loans
Max. Combined Loan-to-Value Ratio (LTV) / Min. Combined Debt-Coverage Ratio (DCR)	<ul style="list-style-type: none"> • If there are scheduled payments for the Climate Financing during the term of the Freddie Mac senior mortgage: 1.10x amortizing DCR / 100% LTV • If the Climate Financing debt service is payable only from available cash flow or no Climate Financing debt service is payable during the term of the Freddie Mac mortgage, there is no preset minimum combined DCR or maximum combined LTV. <ul style="list-style-type: none"> • Any payment of debt service on aggregated subordinate debt must not exceed the following percentages after payment of operating expenses, escrow accounts, replacement reserves and debt service on the Freddie Mac senior mortgage: <ul style="list-style-type: none"> • TAH mortgages: 75% • All other Freddie Mac mortgages: 25%
Other Underwriting Requirements	<ul style="list-style-type: none"> • The valuation and underwriting approaches and performance requirements while improvements are underway will be in accordance with the Freddie Mac senior mortgage. • Escrows for replacement reserves and priority repairs cannot be deferred.
Loan Documents	<ul style="list-style-type: none"> • Subject to Freddie Mac's current loan documents and any applicable conditions of the senior loan. • Climate Financing must be subordinate to all current and future senior mortgages using the appropriate form required by Freddie Mac. • The Climate Financing lender and borrower must agree to make any reporting required by the Climate Financing third-party lender available to Freddie Mac.

For More Information

Contact your Freddie Mac representative.