Freddie Mac MULTIFAMILY

SBL Refinance Analysis & Short-term Value Growth

A cash out refinance should include any transaction where the proceeds of the new loan is greater than 103% of the sum of the UPB of any refinance loan, plus an allowance for permitted transactional expenses. Permitted Transactional Expenses are defined as 1) Prepayment penalties paid by the borrower, 2) Closing Costs as defined below, not to exceed 3% of the UPB of the new loan, and 3) Escrowed discretionary capital improvements. See "Credit Updates to Cash Out Refinances" for further information.

Closing Costs include the following:

- Mortgage origination fees (including Seller / Servicer fees and Freddie Mac's application fees) payable in connection with the new Mortgage, so long as they are not included in the interest rate.
- Broker fees or acquisition fees paid by the buyer (capped at 1% of purchase price).
- Other reasonable closing or settlement costs paid by the borrower, such as mortgage registration taxes, recordation fees, survey, title searches and title insurance, attorney's fees, and credit report charges.
- Fees for third party reports including appraisal reports, environmental reports, and property condition reports.

Escrowed Discretionary Capital Improvements are excluded from the cap on closing costs of 3% of UPB.

If the sponsor does not include all the collateral from the existing loan in the new loan, the existing loan balance will be prorated for determination of cash out.

If the refinance request is based on an acquisition that has taken place within 12 months of full underwriting package submission to Freddie Mac, the underwritten value will be based on the lesser of total acquisition cost or appraised value. Total acquisition cost is defined as the sum of (1) the purchase price, and (2) the permitted and documented closing costs to third parties in an amount not to exceed 3% of the purchase price. Consideration may be given to capital expenditures completed in accordance with the underwriting guidance provided below.

Short-term Value Growth

Effective immediately, all new loan submissions in which the borrower either acquired the property within the preceding 36 months or refinanced the property within the preceding 36 months will require an analysis of the change in value if the value has increase at a rate greater than 15% per year. To facilitate this analysis, the sponsor must provide i) a rent roll dated near the time of acquisition or the previous loan closing, ii) support for the value at the time of the previous transaction (e.g. settlement statement, appraisal, etc.), iii) an operating statement for the year preceding or following the preceding transaction, and iv) information describing and supporting capital improvements that have been completed since the preceding transaction.

Capital expenditures (Cap Ex) include interior renovations or improvements, exterior renovations or improvements and cured deferred maintenance. Here are some examples:

Interior renovations: flooring, cabinetry, bathroom fixtures, kitchen appliances, new HVAC

Exterior renovations: amenities, lighting, fencing, landscaping

Cured deferred maintenance: roof replacement, repaving parking surfaces, exterior painting, repairing siding

Cap Ex related to unit renovations or restoring down or non-revenue units should be excluded from the short-term value growth analysis to avoid double counting the benefit of capital expenditures and rent growth.

There are a variety of ways a borrower can realize a sustainable increase in the value of a property, including:

- Increased net rentable income ("NRI") as a result of simply recognizing that the property's rents are below market and raising rents to higher market levels.

- The implementation of programs to generate sustainable additional other income consistent with the market, such as pet fees, application fees, cable and internet services, and utility reimbursement ("RUBS") programs.

- Sustainable improved expense management practices as evidenced by 12-months' of reduced operating expenses.

- A demonstrated improvement in market conditions resulting in a reduction or compression in market cap rates.

The underwritten value based on the short-term value creation analysis for the new transaction should not materially exceed the sum of the sponsor's acquisition cost basis plus the value increase from sustainable measures noted above.

Underwriting guidance:

1. FM inspection must not be delegated to the lender if short-term value creation analysis is required.
2. In the case of a property benefiting from capital improvements, the sponsor should provide a detailed summary of the improvements that were completed, including a description of the improvements and evidence of the costs and categories of improvements.
    a. This information should be fully available prior to the inspection such that it can be verified and subsequently discussed in the MTNA and third-party reports.
3. Value must be supported by change in NRI (the sponsor will provide a rent roll dated near the time of acquisition or the preceding refinance to compare to the current rent roll).
    a. If a rent roll is not available, supplemental documentation to support the increase in rent is required.
4. Value growth attributable to RUBS income and Other Income must be from sustainable income and evident for a reasonable period in the historical statements, preferably 12 months.
5. T12 collections must be provided with no material deterioration in T3.
6. Tax analysis must consider potential reassessment risk due to significant value increase. Consider the following:
    a. Will capital improvements trigger a reassessment?
    b. Is there a pending reassessment within the next 2 to 3 years?
    c. What impact would stressed or increased taxes have on the DSCR?
7. Underwritten expenses not less than T12 in the aggregate and by expense category, unless previously approved by FM.

8. Borrower must provide support for acquisition price (within the last 3 years) or cost basis (e.g. existing Freddie Mac loan files, settlement statement from original purchase, title policy, tax return schedules, recording information, other public information).
9. Short-term value growth that is not supported is subject to Prescreen approval. Consideration should be given to other potential exceptions associated with recently stabilized assets.