



FREDDIE MAC® Workforce Housing Mezzanine Loan

- The Mezzanine Loan is originated with Freddie Mac's Conventional Loan and empowers Borrowers to preserve more affordable housing and impact their communities
- Borrowers obtain both senior debt and a mezzanine loan through a streamlined single-source process with favorable pricing on the mezzanine loan
- In exchange for favorable pricing, Borrowers agree to limit rent growth on 80% of units in the property (Minimum Set-Aside Units) through the Preservation of Affordable Rents Covenant (PARC) – with allowances made for certain uncontrollable expenses and one-time capital expenditures that extend the useful life and marketability of the property
- Straightforward annual monitoring of rents ensures the units stay affordable to the nation's workforce

Borrower Requirements

- Mezzanine Borrower: A single-purpose, bankruptcy remote Delaware single-member limited liability company, owned and controlled, directly or indirectly, by the project Sponsor
- Senior Borrower: A single-purpose, bankruptcy remote Delaware single-member limited liability company, owned and controlled directly by the Mezzanine Borrower and indirectly by the project Sponsor

Eligible Properties/ Affordable Units

- Properties must have at least 50% of the rents affordable to households making 100% Area Median Income (AMI) or below, or
- Properties must be in relatively affordable census tracts and have at least 50% of units with rents less than or equal to median rent.

Term

10 years; the Conventional Freddie Mac Loan (Senior Loan) and Mezzanine Loan must be coterminous

Interest Rate

Fixed or floating options are available with best-in-market pricing. Floating-rate Mezzanine Loans will not require the purchase of an interest rate cap

Amortization

Interest-only payments throughout the term of the Mezzanine Loan

Maximum Combined Loan-to-Value (LTV) Ratio

10% above the LTV of the Senior Loan, not to exceed 90%

Minimum Combined Debt Coverage Ratio (DCR)

0.20 below the DCR for the Senior Loan, but no less than 1.05x based on amortizing debt service on the Senior Loan and interest-only on the Mezzanine Loan

Guarantor

Project sponsor and/or other entities/persons acceptable to Freddie Mac at its discretion

Collateral for Mezzanine Loan

A first-priority pledge by the Mezzanine Borrower of 100% of the equity interests in Senior Borrower

Recourse/Guarantees

Consistent with the Senior Loan, provided that the Mezzanine Loan also becomes full recourse to the Borrower if the Senior Borrower grants a deed in lieu of foreclosure to the Senior Lender or fails to comply with the PARC for two consecutive years

Prepayment Structure and Limitations

The Mezzanine Loan may not be prepaid except as follows:

- In whole, if the Mezzanine Loan is refinanced under a Freddie Mac loan program and the preservation of affordability is maintained for a period not less than the original term of the Mezzanine Loan; or
- In part, provided that any prepayment in part must reduce the unpaid principal balance on the Mezzanine Loan to \$1.00, thereby preserving the affordability; or
- During the last 3 months, the Mezzanine Loan may be prepaid in full at par.

Note: prepayment in above scenarios will still be subject to prepayment fees and a lockout period (24 months).

**PARC**

Per annum rent growth for the Minimum Set-Aside Units (including the Affordable Units) limited to no more than the greater of 2% or the annual increase in the Consumer Price Index (CPI) plus 1% for the term of the Mezzanine Loan

Permitted Expense Pass-Throughs

- Uncontrollable expenses: defined as real estate taxes, property insurance, and utilities, may be partially passed through. To qualify for a pass-through, the uncontrollable expense growth in a given calendar year must exceed the CPI by 5%. May not begin until the third loan year.
- Capital Expenditures: Not to exceed \$10,000 per unit, may be passed through if approved at, and completed within 2 years of origination. Return on investment is limited to 10% and must be amortized over 10 years.

Pass-throughs will not be considered "rent" for purposes of determining subsequent permitted annual rent increases but will continue as a pass through of Qualified Expenses or Capital Expenditures for the remaining term of the Mezzanine Loan.

Monitoring and Enforcement

- Borrower must certify PARC compliance on an annual basis. The Servicer will be required to validate compliance with the PARC
- Borrowers out of compliance will be given a one-time, 30-day period to cure PARC non-compliance. Absent the one-time cure period, Borrowers will be assessed an affordability penalty fee of 5% of the original Mezzanine Loan UPB every 6 months until they return rents to compliant levels. Any assessed non-compliance fee will be immediately due and payable
- Two consecutive years of non-compliance will trigger a default of the Mezzanine Loan

Origination Fee

1% of the principal amount of the Mezzanine Loan

Transfers and Assumptions

- Transfer of ownership provisions for the Mezzanine Loan will follow the Senior Loan provisions
- Assumptions of the Mezzanine Loan may be permitted with the payment of a \$5,000 transfer review fee and a transfer fee equal to 1% of the outstanding principal balance of the Mezzanine Loan

Cross Default

An event of default under the Senior Loan shall constitute an event of default under the Mezzanine Loan