FREDDIE MAC® Value-Add Loan

- Offers short-term, cost-effective financing for modest property upgrades ($10,000 to $25,000 per unit)
- Enhanced to improve property financing for rehabilitation work
- Competitive pricing; lower execution costs
- Interest-only and uncapped floating-rate loan
- Non-recourse and “one-stop shopping” for upgrades and permanent financing

Terms

- Three years with one 12-month extension based on the borrower’s request and one optional 12-month extension based on Freddie Mac’s discretion
- Floating-rate loan with full-term interest-only; no cap required
- Standard 12-month lock-out with option for longer or shorter lock-out based on borrower’s preference; borrower may pay off the loan at any time after the expiration of the lock-out period but must remit an exit fee of 1%; the exit fee will be waived if the loan is refinanced with Freddie Mac
- Acquisitions and refinances; not assumable
- Loan documentation at origination will include the Value-Add Rider, which will detail the terms/requirements of the rehabilitation
- Escrows will include real estate taxes, insurance and replacement reserves
- 15% cash equity generally required
- For longer-term ownership, cash-out is available provided a Completion Guaranty on budgeted improvements in an amount at least equal to the cash-out in place

Upfront Fee

Standard 0.5% of loan amount nonrefundable upfront fee subject to adjustment depending on loan terms

Eligible Borrowers

- Developers/operators with experience in multifamily property rehabilitation and in the local market with sufficient financial capacity
- 1.5x the standard minimum net worth and liquidity requirements for guarantors

Eligible Property Types

- Properties with no more than 500 total units in good locations
- Well-constructed properties requiring modest repairs
- Market laggards that require capital infusion and new/improved management
- Real-estate owned properties in receivership that are capable of improved performance
- Seniors housing, student housing and manufactured housing communities are not eligible

Amount

- Maximum loan-to-purchase / loan-to-value (LTV) ratio: 85%
- Minimum amortizing debt service coverage ratio (DSCR): 1.10x – 1.15x depending on market
- Sizing based on a 7-year sizing note rate
- Appraisal must include as-is and as-stabilized values; underwriting must support a 1.30x DSCR and 75% LTV based on as-stabilized value supported by the appraisal
- Standard Freddie Mac underwriting based on as-is income and expense
- Refinance Test not required

- No pro-forma underwriting of future performance

Rehabilitation

- Rehabilitation must commence within 90 days of loan origination and be completed within 33 months
- Acceptable budget of $10,000 per unit to $25,000 per unit
- Budget can be adjusted by as much as 20% without additional approval; 50% of the budget should be spent on unit interiors
- Completion Guaranty or rehabilitation escrow required
- Borrower/Servicer reporting required

At Loan Maturity/Refinance

- Final engineer review of work completion and quality is required
- Refinance with Freddie Mac with no exit fee; otherwise 1% applies
- Freddie Mac will re-underwrite the loan according to then-current credit policy parameters
- One-year borrower extension option is available for a 0.5% extension fee, assuming no event of default
- Additional Freddie Mac extension option is available thereafter with a 1% extension fee

Fees

Standard fees apply, including application fee and good faith deposit