



Freddie Mac Acquisition Upgrade MortgageSM

Freddie Mac offers financing for both the acquisition and upgrade of existing multifamily properties through the Freddie Mac Acquisition Upgrade MortgageSM. This product is available for borrowers seeking to make cosmetic improvements to their properties. It provides funds for both the purchase and upgrade of the property in one first lien mortgage. For borrowers seeking to make more substantial improvements that allow them to reposition their properties in their respective markets, please see the Freddie Mac Acquisition Rehabilitation MortgageSM term sheet.

Key Benefits

- One financing, one application, one approval process, one closing, and one guaranteed fixed rate result in less hassle and more predictability.
- Obtain funds to both purchase and upgrade or rehabilitate an existing multifamily property, maximizing cash flow through upfront financing.
- Reduced interest-rate risk through the Freddie Mac Early Rate-Lock delivery option
- Clearly defined lending parameters and predictable rate-lock and closing timeframes
- Guaranteed permanent financing, since the acquisition and upgrade or rehabilitation funds are funded at the same time
- Ability to obtain supplemental financing as the property continues to improve
- With the Acquisition Rehabilitation Mortgage, you can receive a greater return on your investment through improved positioning of the property.

Product Summary

- The Acquisition Upgrade Mortgage provides borrowers conventional financing for both the acquisition and subsequent upgrade of multifamily properties in one first lien mortgage.
- The repair must be accomplished with the tenants generally remaining in place and occupancy remaining at a minimum of break-even.
- Upgrade funds may be held in an upgrade repair escrow account or the borrower may substitute a letter of credit. For a strong borrower with at least 25% cash equity in the deal, based on total cost, a completion guaranty may be accepted in lieu of a funded upgrade repair escrow or the letter of credit.
- Freddie Mac's collateral consists of a first lien mortgage on the property and the following as applicable: 1) an upgrade repair escrow funded with a holdback of loan proceeds, or a letter of credit or for strong borrowers in certain circumstances a completion guaranty, and 2) collateralization of the debt service coverage shortfall with cash, or a guaranty or a letter of credit.
- The upgrade work must begin within 90 days after origination of the mortgage.
- The upgrade work and any property stabilization must be completed within 24 months.
- The total upgrade repair cost must be a minimum of \$3,000 per unit but must not exceed the lesser of \$10,000 per unit or 20% of acquisition cost.

Eligible Properties

Garden, mid-rise, or high-rise apartment communities with market-rate rents, with the exception of seniors housing and manufactured home communities

Scope of upgrade must be cosmetic in nature and meet the following criteria:

- Upgrade work is non-invasive to the building's structure
- Scope does not involve major building systems or structural components or trigger significant building code compliance
- Items generally permitted as part of a repair scope may include:
 - Interior finish upgrades (units and common areas)
 - New kitchen and bathroom cabinets/ fixtures
 - New boilers or significant parts replacement (non-invasive)
 - New roofing
 - Brick pointing
 - Parking lot resurfacing
- Except for minimal tenant displacement for a few days, tenants should be able to remain in their units throughout the upgrade. A few units may be kept off the market to facilitate the upgrade.

Eligible Borrowers

- Borrower/developers must have adequate experience with the successful completion of at least 3 similar upgrade properties where tenants remained in place during upgrade. They must have experience in the local market.
- Successful history managing similar properties
- If the owner is contracting for the work, the contractor or major subcontractors must have experience in this type of upgrade work.
- The borrower or its guarantor must have sufficient financial capacity to complete the upgrade and carry the project to stabilization from its own funds, if necessary.

Eligible Seller/Serviceers

Only Program Plus[®] Seller/Serviceers that have prior experience with upgrade loans, construction lending, site inspection and engineering/architectural analysis

Loan Size

- Minimum loan size is \$3 million

Loan Term

- Minimum term of 5 years.
- Maximum term of 30 years.
- Upgrade period: The upgrade period will be included in the loan term and will not exceed 24 months.

Maximum Amortization

A period of interest only will be available in most cases with a 30-year amortization thereafter

Collateral

- First lien on the property
- One of the following:
 - Upgrade repair escrow
An upgrade repair escrow account funded at closing from a holdback of loan proceeds. The account must be sufficient to cover all hard and soft costs of the upgrade work.
 - A letter of credit, in an amount sufficient to cover all hard and soft costs of the upgrade work
 - Completion (performance) guaranty
For a strong borrower, with 25% cash equity in the transaction (based on the total cost), a completion guaranty may be accepted.

- Collateralization of debt service coverage shortfall

The debt service coverage shortfall must be collateralized in an amount equal to six (6) times the difference between the property's net operating income (NOI) at loan origination (the "as-is" NOI) and the NOI at the time of stabilization (the "post upgrade" NOI). It must be collateralized with one of the following:

- Cash
- Letter of credit
- Guaranty

The collateral for the debt service coverage shortfall will be released when:

- The borrower and Seller/Servicer (and consulting engineer, if one is required) certify the upgrade is complete, lien free, in accordance with the scope of the work and all applicable building and accessibility codes.
- The property has achieved 90% occupancy for 90 days, and also achieved the required underwritten "as-stabilized" debt coverage ratio (DCR) for three (3) consecutive months.
- The upgrade is completed within 24 months after the origination date. If the work is not completed on time, Freddie Mac may grant either (a) a one 12-month extension, or (b) two 6-month extensions to the upgrade period. If the extension is granted, Freddie Mac will resize the debt service coverage shortfall collateral. Additionally, at the time of the first extension, Freddie Mac may permit a one time only partial release of, or may require an increase in, the cash, guaranty or the letter of credit.

Upgrade Repair Escrow Agreement

For transactions in which a funded upgrade repair escrow is used, the borrower must enter into an upgrade repair escrow agreement, which will:

- Hold all funds (cash or letter of credit) necessary to complete the upgrade (covering all hard and soft costs) based on the Freddie Mac-approved budget.
- Be governed by the terms of a standard Freddie Mac upgrade repair escrow agreement that will be administered by the Seller/Servicer and will incorporate provisions requiring completion of work in a workmanlike manner and in accordance with the approved Scope of Work. It will also contain standard representations and warranties typical for this type of escrow agreement.
- Provide that Freddie Mac or the Seller will have the right to require that an architect/engineer be retained by the Seller at borrower expense at any time during the upgrade period, if work is not proceeding generally on schedule, if there are material unanticipated construction issues, or if inadequate construction monitoring documentation is being provided.
- Contain the Seller responsibilities during the upgrade period.
- Contain the requirements for construction phase monitoring services.

Maximum Loan-to-Value (LTV) (Fixed rate \geq 7 years, non-coop, other terms available with other products)

- 86% of purchase price
- 80% of total cost (acquisition cost plus hard and soft upgrade/upgrade costs)
- 80% of appraiser's as-stabilized value

Minimum Debt Coverage Ratio (DCR)

- 1.20x interest-only "as is" (1.15x available when there is 30% cash equity, good borrower, good market and good property condition)
- 1.20x amortizing as stabilized

Submission Documentation Required and Third-Party Reports

- Scope of Work (prepared by or for the borrower) sufficiently detailed for Freddie Mac to determine:
 - Whether the upgrade qualifies for this product
 - Whether a third-party engineer will be required during upgrade
 - Whether the upgrade budget is properly sized
- Identify all areas of project affected, state the quality and quantity of all materials, and define the expected quality of work
- Project budget (prepared by and for the borrower)

- Schedule (including a timeline of key dates) of the upgrade work to be completed
- An “as-is” income and expense statement
- An “as-stabilized” pro-forma income and expense statement
- Resumes of the development personnel and companies that will perform the work; and copies of work contracts, as appropriate
- Sources and uses of funds
- Appraisal – done on both an “as is” and “as stabilized” basis. Appraiser must be provided Scope of Work
- Environmental reports (Phase I and other reports as necessary)
- Current physical needs assessment done by an independent third party retained by the Seller and dated not more than three (3) months prior to its submission, which will:
 - Include an evaluation of existing conditions, immediate and near-term needs, and recommended repairs and improvements over the life of the loan.
 - Estimate the cost of any work it suggests.

Construction Phase Monitoring

Once the upgrade work begins, the Seller/Servicer must perform ongoing site inspections not less than semi-annually.

The Seller/Servicer must provide Freddie Mac with inspection reports detailing the findings from each inspection, including but not limited to:

- Certification as to the percentage of work completed to date
- Comment on the quality of work completed in relation to the scope of work, plans, and specifications
- Comment on whether the progress of work is on schedule and within budget
- Confirmation that change orders in excess of \$50,000 will not have a negative impact on the property’s NOI or value
- Photographs representative of the upgrade work performed (during the upgrade and at completion)

At the completion of the upgrade the Seller/Servicer must provide a final Inspection Report that documents the completion of work. The Seller/Servicer must verify that the upgrade has been completed substantially in compliance with the plans and specifications, scope of work, and any additional requirements from the engineer, architect, appraiser, Freddie Mac and/or others.

Loan Servicing

In addition to what is required in the *Freddie Mac Multifamily Seller/Servicer Guide*, the Servicer will monitor property performance during the upgrade and stabilization phase to identify:

- Borrower’s failure to complete upgrade in accordance with scope, budget, or timeframe or to comply with other terms of the Upgrade Repair Agreement or upgrade repair escrow agreement.
- Declining or below break-even occupancy.

Replacement Reserves

If funds remain in the upgrade escrow account after the upgrade is complete, the funds must be deposited in the replacement reserve account.

Tax and Insurance Escrows

Required

Application Fee

Standard application fee required.

Servicing Fee

Standard servicing compensation will apply during the entire loan term. Seller/Servicers may charge market-based fees for construction monitoring.