



October 2014

Direct Purchase of Tax-Exempt Loans

On August 27, 2014, Freddie Mac and Walker & Dunlop, as a Freddie Mac Seller/Servicer, closed the first tax-exempt loan (Loan) under the Freddie Mac Multifamily Direct Purchase of Tax-Exempt Loans offering. Walker & Dunlop originated the loan to the Ohio Housing Finance Agency in the amount of \$14,280,000.

- **Description of the Initiative** – Under the Initiative:
 - > Freddie Mac Seller/Servicers make loans (Funding Loans) to state and municipal issuers of tax-exempt bonds (Governmental Issuers).
 - > Governmental Issuers, in turn, loan the proceeds of the Funding Loans to developers (Project Loans) to finance the acquisition or rehabilitation of affordable multifamily properties.
 - > Freddie Mac issues commitments to the Seller/Servicer, which provide the conditions under which Freddie Mac agrees to purchase from the Seller/Servicer the promissory notes evidencing the Funding Loans (Governmental Notes).
 - > Because the Project Loans are intended to meet the requirements for the issuance of tax-exempt obligations under Section 142(d) of the Internal Revenue Code of 1986, as amended (Code) and for the granting of 4 percent low-income housing tax credits under Section 42 of the Code, interest paid on the Governmental Notes should be excluded from gross income for federal income tax purposes.*
 - > The Governmental Notes are intended to be functionally equivalent to tax-exempt bonds.*

- **Documentation** – The Funding Loan is documented with:
 - > A Governmental Note (as described above).
 - > A Funding Loan Agreement among the Governmental Issuer, the Seller/Servicer and a Fiscal Agent, which is a bank with trust powers appointed by the Governmental Issuer.
 - The Funding Loan Agreement operates much as a Trust Indenture does in a bond transaction.
 - The Fiscal Agent performs functions similar to those of a bond trustee in that it takes an assignment of the Project Loan documents from the Governmental Issuer and administers the Project Loan for the benefit of the holder of the Governmental Note.
 - > The Project Loan is documented with:
 - A Project Note.
 - A Project Loan Agreement.
 - A security instrument and other ancillary documents.

- > Continuing Covenant Agreement - In addition to the Funding Loan and Project Loan documents, for each tax-exempt loan the Seller/Servicer and the borrower enter into a Continuing Covenant Agreement which:
 - o Contains customary Freddie Mac borrower covenants and representations and warranties.
 - o Is assigned by the Seller/Servicer to Freddie Mac upon the purchase of the Governmental Note.
- **Guarantors Governmental Notes and Securitization** – The Governmental Notes will be:
 - > Acquired and held by Freddie Mac until an optimal principal balance is aggregated, and then securitized through our M-Deal, similar to our Tax-Exempt Bond Securitization (TEBS) execution.
 - o Freddie Mac will issue a senior Class A and a subordinate Class B security.
 - o The Class A security will be guaranteed by Freddie Mac and will be publicly sold.
 - o The Class B security will not be guaranteed and will be privately placed.
 - o Upon the closing of each M-Deal, Freddie Mac will deposit the Governmental Notes into a trust for the benefit of the Class A and Class B security holders (Holders).
 - o To ensure that all tax-exempt interest received by Freddie Mac on the Governmental Notes is passed through to the Holders as tax-exempt, each trust will elect partnership treatment for tax purposes.
 - o Freddie Mac will obtain a clean tax opinion concluding that interest on the Class A and Class B securities is tax-exempt.
 - > Interest payments received by Freddie Mac on the Governmental Notes will be used:
 - o First, to pay all interest due on the Class A security and all expenses of the securitization.
 - o Second, to pay any residual interest to the Holder of the Class B security.
- **Affordable Housing** – By acquiring Governmental Notes through Direct Purchase of Tax-Exempt Loans and securitizing them through the M-Deal, Freddie Mac will continue to support affordable multifamily housing while transferring a substantial portion of its risk to private investors.

*Freddie Mac is not rendering tax or legal advice and appropriate tax and legal counsel should be consulted on all tax and legal aspects and ramifications of the offering and its structure.