Index Lock FAQs

Description

Q: What is an Index Lock?

A: Index Lock gives existing borrowers the opportunity to lock the most volatile part of the coupon (the Treasury index) anytime during the quote or underwriting process. Index Lock also includes the ability to hold the quoted spread, which is not subject to market grid movements; however, the spread will be adjusted based on the pricing grid in effect as of the quote date due to changes in the property or the borrower or other transaction-specific terms not fully reflected in the quote.

Following the execution of the Index Lock, the borrower can choose to complete the early rate-lock (ERL) process to lock the spread quickly or follow our standard delivery execution to lock the spread at completion of full underwriting.

Eligibility

Q: Who is eligible for the Index Lock offering?

A: Any borrower pursuing a securitized loan that has had a securitized loan purchased within the last 24 months.

Q: What types of assets qualify for this offering?

A: The offer applies only to a single identifiable asset (nontransferable) with loan size capped at $150 million, and can be either a refinance or an acquisition transaction. Pools are eligible with approval.

Benefits and Process

Q: What are the benefits of an Index Lock?

A: Index Lock allows borrowers to quickly lock the Treasury index at quote or underwriting, mitigating the issue of interest rate volatility. It also creates greater efficiencies for the Seller/Servicer and their borrower by requiring less documentation to lock than a preliminary underwriting package. With the addition of the ability to hold the quoted spread at Index Lock, it will further mitigate risk and reduce loan coupon volatility. Once the Index Lock Agreement is issued, the borrower needs to Index Lock before the quote expires (five business days from quote issuance).

Q: Since Freddie Mac is locking the index, but not the spread, when will the borrower know their all-in rate?

A: With the addition of the ability to hold the quoted spread at Index Lock, the borrower will have some indication of the all-in rate at Index Lock; the spread will not be subject to market grid movements but will be adjusted due to new information received on the property, the borrower, or the guarantor or if there are loan document modifications or transaction-specific facts that require additional changes to the quoted spread. If the borrower chooses early rate-lock, they will know their all-in rate subsequent to a review and approval of a pre-underwriting package. If the borrower chooses the standard delivery process, they will know their all-in-rate after commitment.

Q: What is the process of locking the Treasury index?

A: If a Seller/Servicer wishes to lock the Treasury index on behalf of their borrower, they must identify an asset, request a UPB, complete and submit a Loan Submission Template (LST), send it to Production for a quote, and sign and return the Index Lock Application. A preliminary underwriting package is not required to complete the Index Lock. Once you receive a current quote based on the pricing grid in effect on the date of the quote, if you choose an early rate-lock, you will need to deliver the preliminary package within 15 days. If you choose standard delivery, you will need to deliver the full underwriting package within 45 days.

Q: How quickly can a Seller/Servicer lock the Treasury index on behalf of their borrower?

A: A Seller/Servicer can lock the Treasury index on behalf of the borrower within hours of receipt of a completed LST, if the Seller/Servicer and borrower return a signed Index Lock application within this timeframe.

Q: Once the Seller/Servicer locks the Treasury index on behalf of their borrower, is the rate-lock process complete?

A: No. The interest rate (also referred to as our all-in coupon) consists of two separate parts: the Treasury index and the spread, both determined through Freddie Mac Pricing. Because the Treasury index is normally the more volatile of the two, it is to a borrower's benefit to lock this in as quickly as possible. After the Treasury index is locked, the quoted spread is not subject to market volatility and may be locked through either the early rate-lock or the standard delivery process.

Q: If a borrower notices Treasury volatility while following the standard delivery rate-lock process, can their Seller/Servicer lock the Treasury index during underwriting?

A: Yes, provided the borrower meets the eligibility criteria and remits the 2% good faith deposit to the Seller.