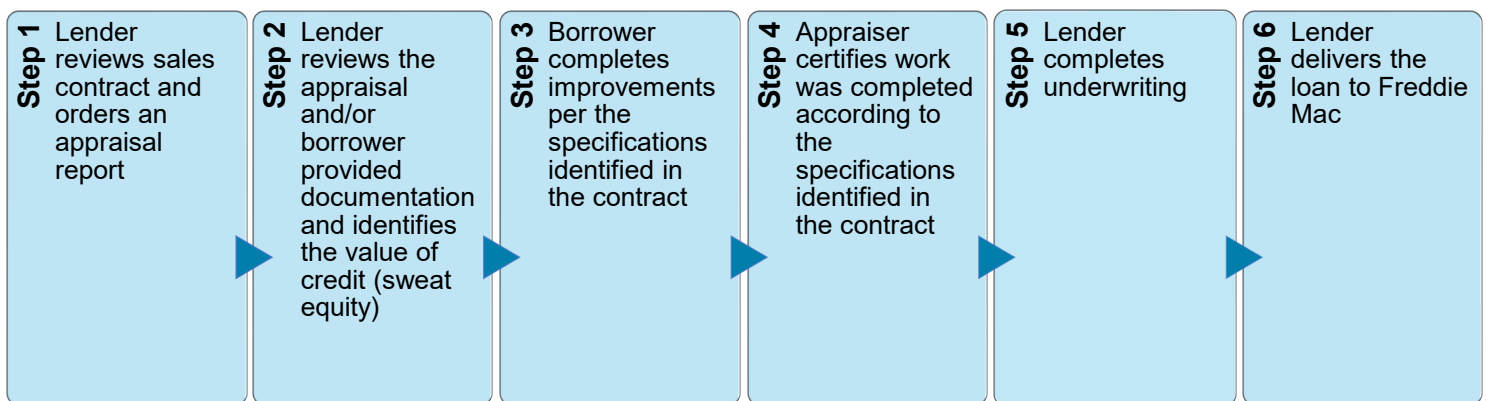


## COVID-19 Response Notice:

Visit our [COVID-19 Resources](#) web page for temporary guidance related to credit underwriting and property valuations.

To help preserve affordable housing, borrowers may apply sweat equity as a source of eligible funds to cover down payment and/or closing costs for Home Possible Mortgages. Sweat equity is a credit for labor performed and/or materials provided by the borrower prior to closing on the property and is considered equivalent to the borrower's personal funds.

This job aid provides important reminders on steps that must be taken to underwrite and deliver loans with sweat equity. It also provides an example of how the sweat equity and final loan amount values are determined. For complete information on sweat equity requirements, refer to the *Freddie Mac Single-Family Seller/Service Guide* (Guide) 4501.10.



## Step 1. Lender reviews sales contract and orders an appraisal report

- Improvements the borrower plans to complete must be identified in the sales contract. The sales contract should include the “as is” value, “as completed” value and a list of repairs. The appraisal should reflect the “as is” value, the “as completed” value and verify the value of the repairs (i.e., appraisal will be completed subject to the improvements identified in the sales contract).
- To be eligible for a credit, the repairs and improvements must be outstanding at the time of the appraisal. Work completed prior to the original property inspection is not eligible for a sweat equity credit.

**Note:** Vertical revision bars " | " are used in the margin of this quick reference to highlight new requirements and significant changes



## Step 2. Lender review the appraisal and/or the borrower provided documentation and identifies the value of credit (sweat equity)

- Value of sweat equity that may be used as a credit for borrower's personal funds is determined by the value of the labor performed plus the cost of the materials furnished:
  - Labor must be estimated by the appraiser or a cost-estimating service and documented in the appraisal report or mortgage file.
  - The value of the materials furnished must be calculated either by using the receipts provided by the borrower or estimated by the appraiser or cost-estimating service. The estimates or costs must be documented in the mortgage file.

## Step 3. Borrower completes improvements per the specifications identified in the contract

After the improvements are documented and cost estimates are determined, the borrower completes the improvements.

## Step 4. Appraiser certifies work was completed according to the specifications identified in the contract

- Once work is complete, the appraiser must perform the final inspection of the property and provide a completion report documenting that the property has been satisfactorily completed.
- The completion report must:
  - Include photographs of the completed items
  - Be retained in the Mortgage file

## Step 5. Lender completes underwriting

- Loan must meet all other Home Possible Mortgage requirements, including submission to Loan Product Advisor®.
- Sweat equity may be used to cover the entire amount of down payment and/or closing costs up to:
  - A maximum LTV ratio of 97% on a 1-unit primary residence. When combined with an Affordable Second®, up to a maximum 105% TLTV ratio.
  - Effective 11/15/21: A maximum LTV ratio of 95% on 2- to 4-unit primary residences. A maximum LTV ratio of 75% for an ARM secured to a 3- and 4-unit primary residence. When combined with an Affordable Second, up to a maximum 105% TLTV ratio.
  - Manufactured homes refer to [Guide Section 5703.3](#).
- When entering data for Loan Product Advisor's assessment, enter the appraiser's opinion of market value ("as completed" value) in the *Appraised Value of Property* and *Purchase Price* fields.

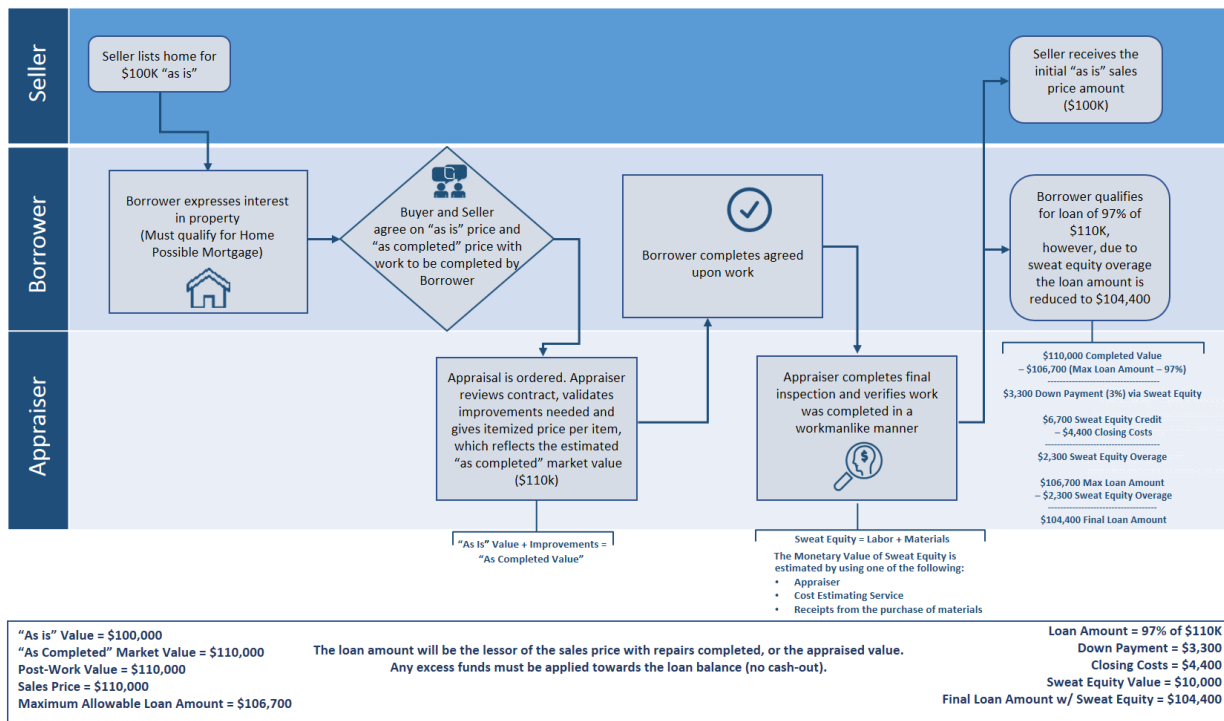


- Loan Product Advisor cannot assess funds being used from sweat equity and may provide a feedback message indicating there are insufficient funds. You must manually check the borrower has sufficient funds to close (funds needed in addition to the sweat equity credit).
- Credit provided for sweat equity must be fully explained and documented in the mortgage file.
- If there are excess funds at closing, the excess funds must be deducted from the loan amount – the borrower must not receive cash back at closing.

### Step 6. Lender delivers the loan to Freddie Mac

- Deliver the ULDD Data Point required for Home Possible Mortgages (Refer to Guide Section 6302.14(b)(i)).
- In addition, deliver the ULDD Data Point Investor Feature Identifier (Sort ID 368) and enter a valid value of “J11”.

### Sweat Equity Example:



This document is not a replacement or substitute for the information found in the *Freddie Mac Single-Family Seller/Service Guide* or terms of your Master Agreement or other Pricing Identifier Terms.  
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