

Borrower Due Diligence

Frequently Asked Questions

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Introduction

Why did Freddie Mac make these updates?

We revised our requirements for due diligence materials to focus on those parties where the assessment of credit risk is most relevant, while still preserving our Know Your Customer (KYC), disclosure and web search guidelines. If you have further questions, please contact your Freddie Mac representative.

Non-U.S. Equity Holders

Has our definition of a Non-U.S. Equity Holder changed?

No. As with other KYC requirements, this is unchanged. A Non-U.S. Equity Holder means any person or entity that is not a U.S. citizen or an entity formed in the U.S. with a collective (direct or indirect) equity interest in the Borrower equal to or exceeding 10%. Standard KYC checks are still required on all Non-U.S. Equity Holders.

What are the due diligence requirements for a 35% foreign citizen?

This depends on their role in the organizational structure. A foreign individual or entity owning at least 25% aggregate interest but less than a 50% aggregate interest in the Borrower, **not** in Ultimate Control, and **not** the Guarantor would not be considered a Key Borrower Principal and therefore full due diligence would not be required. However, they would still be considered a Non-U.S. Equity Holder **and** a Borrower Principal, so they would require standard KYC checks.

Organizational Chart Disclosures/KYC

Have KYC search (e.g., prohibited party lists) requirements changed?

No. Organizational charts still must disclose all Borrower Principals and Non-U.S. Equity Holders and the appropriate searches must still be completed.

Are there any changes to the Certification of the Organization Chart (Form 1114)?

No. There are no changes to this form, and it is still required with all organizational chart submissions.

Do Key Borrower Principals need to be labeled on the organizational chart?

Borrower Principals must be identified on the organizational chart and therefore Key Borrower Principals would be captured through that process, but there is no additional requirement to specifically label **Key Borrower Principals** as such. Please ensure that the [Mortgage Transaction Narrative Analysis \(MTNA\)](#) identifies the Key Borrower Principals and refer to the [Organizational Chart – Interactive Guidance document](#) on mf.freddiemac.com for additional guidance on what is required in the organizational chart.

Will the update have any impact on Single Purpose Entity (SPE) requirements?

No. There are no changes to any SPE requirements. The update is focused on more clearly defining those parties for which full due diligence is required.

General Due Diligence Questions

Is any due diligence documentation (Form 1115, Form 1116, Financial Statement, Credit Report) required on Borrower Principals who are not Key Borrower Principals?

No, but the lender still has the right to request any due diligence documentation they deem necessary. If the lender requires additional information to clear a KYC / Web Search false positive or obtain additional details on an adverse search result, the lender may request a Form 1115 or any other form of documentation they deem appropriate.

Key Borrower Principals

How should we identify a Key Borrower Principal in the Loan Submission Template (LST)?

Continue to use the “Borrower Principals” section (BP #1, BP #2, etc.) to identify the Key Borrower Principals. There is no change contemplated for the LST.

Will the MTNA best practices document be updated to reflect the introduction of the new term (Key Borrower Principal)?

The Key Borrower Principals should be identified in the MTNA, similar to how the Final Level Borrower Principals were previously identified prior to 4/13/2023. The guidance related to the analysis and presentation of due diligence information is unchanged.

If a Guarantor is waived, is it still possible to have a Key Borrower Principal in a transaction?

Yes. A Guarantor is only one type of Key Borrower Principal. Even if there is no Guarantor, any individual or entity with Ultimate Control and/or the last individual or entity in the organizational structure with an aggregate equity interest of at least 50% would be a Key Borrower Principal.

Are all Designated Entities for Transfer (DETs) Key Borrower Principals?

Some, but not all, DETs can be Key Borrower Principals (e.g., an entity Guarantor). DETs connect the Borrower with the individual or entity with Ultimate Control and form a chain along the control path. All DETs are considered Borrower Principals and must be shown on the organizational chart, but full due diligence is not required for DETs unless they are also Key Borrower Principals or if otherwise requested by the lender.

Is a corporation considered the Key Borrower Principal if (1) it has Ultimate control, (2) is the Guarantor, or (3) is the last entity with at least 50% aggregate interest? Or is it the board members?

Generally, the corporation will be considered the Key Borrower Principal. However, if the corporation is in the Control chain, we may determine other parties, such as shareholders, board members or officers, may be Key Borrower Principals based on the nature of their Control. Consult your Freddie Mac representative to evaluate your situation on a case-by-case basis.

When do the new rules on Key Borrower Principals go into effect?

The updated requirements are in effect now and will be applied to all loans.

- For deals not yet under application, the new forms should be used.
- For loans in process, please use best efforts to obtain the new forms. If the pre-4/13/2023 forms have already been submitted, it is not necessary to have new ones re-submitted. Likewise, where there may be a partial submission in the Document Management System (DMS), and there are outstanding items on parties that were required before 4/13/2023 but not from 4/13/2023 on, it is not necessary to obtain the outstanding items.
- However, if the Key Borrower Principal is not using the 4/13/2023 Form 1116 or they are providing a real estate schedule in a different format, the recourse information will need to be provided separately in order to review the contingent liabilities.
- At this time, there is no impact to the “Top Sponsor Program.” The new forms will be required as they become part of the normal update cycle.
- For Forward Commitments, the 4/13/2023 requirements will apply when the updated package is submitted at the time of the conversion.

Organizational Chart Examples Covered in the April 13 and April 17, 2023 Training

If an entity meeting the definition of Private Investment Fund sits along the path of Control, where do I stop for the collection of full due diligence material?

For KYC disclosure purposes, the organizational chart must continue along the path of Control until an individual, revocable trust (including the grantor/settlor of that trust), trustee of an irrevocable trust, or U.S. public company is reached. However, for due diligence purposes, a Private Investment Fund meets the definition of Ultimate Control and this is where you would stop for the collection of full due diligence — not at the individual with ultimate control of the fund. This is unchanged from the pre-4/13 approach.

Form 1115 and Form 1116 Instructions

For Seniors Housing Operators, are there specific instructions for the completion of Form 1115?

Yes. Seniors Housing Operators should complete the Borrower section of the Form 1115 certification (not the Key Borrower Principal section). This instruction also applies to a Master Tenant when that type of structure exists.

Does the SBL Form 1115 (1115SBL) still certify the information within the Form 1116?

Yes. The SBL version of the Form 1115 still has the same functionality as it did prior to the 4/13 update and includes a certification for a number of different documents, including the Form 1116 and Certified Financial Statements.

If Form 1116 is completed using the “stabilized” value of a property under construction, will the contingent liability calculation be accurate?

No. The form must be completed using the “as is” value of the property as well as the current balance of the construction loan (the amount drawn down to date).

Form 1115 and Form 1116 Technical Issues

The format of Form 1115 is potentially very confusing for the sponsors given the issues with the pagination and the fact that the Borrower section also appears on the Key Borrower Principal forms.

Although we attempted to incorporate a bookmark feature into the form, we recognize that the new format may be inadvertently creating additional confusion. We are currently exploring alternatives to the current format.

The Form 1116 downloaded from the site appears to having “REF” error issues or is warning about dangerous macros. What should I do?

Download the form and mark the file as trusted or enable macros. If you are having difficulty viewing certain forms in a browser, download the forms first before attempting to view. [See instructions here.](#)

Asset Management / Servicing

Will Asset Management apply the same Key Borrower Principal due diligence requirements to Transfers/Assumptions?

Yes, the Asset Management Team is aware of these changes, attended internal training sessions, and is ready to apply the same framework to evaluating key parties in post-closing transactions.

Is there any impact to the introduction of the new Key Borrower Principal term and associated due diligence requirements to any ongoing servicing requirements of the loan?

The requirements of the loan documents would continue to govern and, in servicing the loan, the lender would follow the *Multifamily Seller/Servicer Guide* standard, which includes the new due diligence requirements.