

# Multifamily Seller/Service Guide

## Chapter 3

### Seller/Service Eligibility Requirements



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### 3.1 Freddie Mac Seller/Servicer requirements and designations (06/15/23)

All Freddie Mac Seller/Servicers must:

- Be a permanent organization and an ongoing concern
- Be properly authorized to do business in each jurisdiction in which it engages in origination or Servicing
- Be:
  - Organized under federal law, or
  - Organized under the laws of one of the 50 States, the District of Columbia, Guam, Puerto Rico or the Virgin Islands, or
  - A United States-domiciled branch or subsidiary of a foreign entity

Freddie Mac, in its sole discretion, may approve a Seller/Servicer as one or more of the designations below in Sections 3.1(a) through (c). See Section 3.1(d) for the Prescreen and Application Processes and fees.

#### a. Optigo Lender (06/15/23)

An Optigo Lender must meet Freddie Mac's eligibility requirements, including the net worth requirements in Section 3.3, and must be approved by Freddie Mac. Optigo Lenders are approved to originate, sell, and service Mortgages for Freddie Mac, as follows:

##### 1. Optigo Conventional Lender

Freddie Mac may approve a Seller/Servicer to originate conventional Mortgages for sale to Freddie Mac on an ongoing basis, and to service those Mortgages. Such a Seller/Servicer will be designated as an Optigo Conventional Lender. In the Guide, an Optigo Conventional Lender will be referred to as a Conventional Seller/Servicer.

##### 2. Optigo Targeted Affordable Housing (TAH) Lender

Freddie Mac may approve a Seller/Servicer to originate Targeted Affordable Housing Mortgages for sale to Freddie Mac on an ongoing basis, and to service those Mortgages. Such a Seller/Servicer will be designated as an Optigo Targeted Affordable Housing (TAH) Lender. In the Guide, an Optigo TAH Lender will be referred to as a TAH Seller/Servicer.

Section 3.13 outlines additional requirements applicable to TAH Seller/Servicers. Once approved, a TAH Seller/Servicer will be permitted to originate loans for Targeted Affordable Housing properties in every State.

##### 3. Optigo Small Balance Loan Lender

Freddie Mac may approve a Seller/Servicer to originate Small Balance Loan Mortgages for sale to Freddie Mac on an ongoing basis, and to service those Mortgages. Such a



Seller/Servicer will be designated as an Optigo Small Balance Loan (SBL) Lender. In the Guide, an Optigo SBL Lender will be referred to as an SBL Seller/Servicer. Section 3.15 outlines additional requirements applicable to SBL Seller/Servicers.

#### 4. Optigo Seniors Housing Lender

Freddie Mac may approve a Seller/Servicer to originate Seniors Housing Mortgages for sale to Freddie Mac on an ongoing basis, and to service those Mortgages. Such a Seller/Servicer will be designated as an Optigo Seniors Housing Lender. In the Guide, an Optigo Seniors Housing Lender will be referred to as a Seniors Housing Seller/Servicer.

Section 3.14 outlines additional requirements applicable to Seniors Housing Seller/Servicers. Once approved, a Seniors Housing Seller/Servicer will be permitted to originate loans for Seniors Housing properties in every state.

#### b. Freddie Mac Multifamily Structured Transaction Seller/Servicer (05/11/10)

Freddie Mac may approve a Seller/Servicer to originate Mortgages for sale to Freddie Mac, and to service those Mortgages, only in connection with one or more Structured Transactions. This designation includes Seller/Servicers who have been approved for tax-exempt bond securitization (TEBS) transactions. Such a Seller/Servicer will be designated as a Freddie Mac Multifamily Approved Structured Transaction Seller/Servicer.

#### c. Freddie Mac Multifamily Servicing-only approval (06/17/21)

Freddie Mac has approved certain existing customers as Servicers only, authorized only to service Mortgages for Freddie Mac. If the applicant is approved as a Servicer only, it may neither originate Mortgages for sale to Freddie Mac nor represent itself as a Freddie Mac Seller. Subject to Freddie Mac approval, the Servicer may purchase Freddie Mac Servicing and may continue to service any Freddie Mac Mortgages that it has in its servicing portfolio.

#### d. Prescreen and Application Processes and fees (06/15/23)

To begin the process to become an approved Freddie Mac Seller/Servicer, the applicant must submit the Notification of Interest Form found at <https://mf.freddie.com/lenders/eligibility/>. The web form requires confirmation that the applicant has reviewed Freddie Mac's (i) eligibility requirements in this Chapter 3 and (ii) [sustainability overview](#).

Freddie Mac will evaluate the applicant following the Prescreen Process and Application Process detailed in the [Optigo Lender Application Roadmap](#).

Freddie Mac will charge a fee due during the Prescreen Process ("Prescreen Review Fee") and an application fee during the Application Process to cover the costs of evaluating the Seller/Servicer's application to become an approved Freddie Mac Seller/Servicer.

Effective for all new requests beginning on June 15, 2023, the Prescreen Review Fee is as follows:



Prescreen Review Fee		
Designation	Fee	Notes
Conventional Seller/Servicer	\$5,000	<ul style="list-style-type: none"> <li>Freddie Mac may adjust the fee based on prior approval and transaction type</li> <li>There is no additional fee for an approved Conventional Seller/Servicer to become an approved Seniors Housing Seller/Servicer</li> </ul>
TAH Seller/Servicer		
SBL Seller/Servicer		

Effective for all new requests beginning on June 17, 2021, the application fee to become an approved Freddie Mac Seller/Servicer is as follows:

Application fee to become an approved Seller/Servicer		
Designation	Fee	Notes
Conventional Seller/Servicer	\$50,000	<ul style="list-style-type: none"> <li>Freddie Mac may adjust the fee based on prior approval and transaction type</li> <li>There is no additional fee for an approved Conventional Seller/Servicer to become an approved Seniors Housing Seller/Servicer</li> </ul>
TAH Seller/Servicer		
SBL Seller/Servicer		
Servicer-only	\$50,000	

Effective for all new requests beginning on February 18, 2021, the application fee to become an approved Freddie Mac Structured Transaction Seller/Servicer on a **per transaction basis** is as follows:

Application fee to become an approved Structured Transaction Seller/Servicer		
Designation	Fee	Notes
Structured Transaction Seller/Servicer that will both sell and service the Mortgage	\$30,000	<ul style="list-style-type: none"> <li>The fee is valid for 12 months if the Structured Transaction Seller/Servicer returns with the same transaction structure and</li> </ul>



Application fee to become an approved Structured Transaction Seller/Servicer		
Designation	Fee	Notes
		the same approved Seller/Servicers <ul style="list-style-type: none"> <li>The fee is reduced by 50 percent if the Structured Transaction Seller/Servicer returns beyond 12 months with the same transaction structure and the same approved Seller/Servicers</li> </ul>
Structured Transaction Seller-only	\$15,000	Same notes as above plus: <ul style="list-style-type: none"> <li>The servicing must be performed by a current Optigo Servicer</li> <li>The fee must be paid by the Structured Transaction Seller, not the current Optigo Servicer performing the servicing</li> </ul>

**3.2 Branch production offices and geographic areas for Optigo Conventional Lenders (Conventional Seller/Servicers) (06/15/23)**

Freddie Mac, in its sole discretion, approves Conventional Seller/Servicers to originate business nationwide.

Each Conventional Seller/Servicer is responsible for managing its active branch production offices, including creating and terminating such branch offices, and more generally determining that each branch production office engaged in Freddie Mac Multifamily business are fully trained, experienced, and qualified before submitting any loans into Freddie Mac for quote.

Should Freddie Mac, in its sole discretion, determine that a branch production office is not qualified to submit loans to Freddie Mac, it may result in Freddie Mac rejecting submissions from the office, reducing the geographic area of the Conventional Seller/Servicer, and/or placing the Conventional Seller/Servicer on probation.



### 3.3 Financial eligibility minimum servicing volume and experience requirements (10/17/24)

#### a. Minimum net worth and other financial eligibility requirements, and minimum servicing volume and experience requirements (10/17/24)

These requirements are effective for financial reporting for the period ending June 30, 2025.

The financial eligibility requirements must be met on a quarterly basis.

Each applicant seeking to become an approved Seller/Servicer must have a minimum of two years of audited financial history and meet the minimum standards below as of the date of the application.

Eligibility topic	Requirement
Minimum tangible net worth	Greater of: \$7.5 million  <i>OR</i>  \$2.5 million plus 10 bps of total servicing portfolio UPB
Minimum capital ratio	≥ 6%
Minimum Liquid Assets	\$500,000
Minimum volume of servicing portfolio and servicing experience	\$750 million of mortgages secured by multifamily and/or commercial properties  <i>AND</i>  Three years' experience servicing commercial and/or multifamily securitized loans, consisting of a minimum of 100 securitized loans

For purposes of determining compliance with the requirements of this Section 3.3(a):

- Tangible net worth = net worth (as determined in accordance with generally accepted accounting principles (GAAP)), less restricted cash, less receivables due from related parties, less goodwill and other intangible assets, less carrying value of pledged assets, less restricted retained earnings, less deferred tax assets
- Capital ratio = tangible net worth / total assets
- Eligible liquid assets can include any or all of the following:





- Cash and cash equivalents, Treasury bills, money market investments or certificates of deposit with maturities of one year or less, or allowable marketable securities which include short-term, investment-grade securities either held for sale or trading, such as agency mortgage-backed securities, obligations from Government Sponsored Enterprises, and Treasury obligations

**b. Additional financial requirements for non-SBL Seller/Servicers (10/17/24)**

The Seller/Servicer must demonstrate to Freddie Mac that it has sufficient capitalization, profitability, and funding sources to support its ongoing operations and its commitments to Freddie Mac.

Freddie Mac will periodically review the Seller/Servicer’s financial condition and the sufficiency of Seller/Servicer’s financial capacity will be determined by Freddie Mac in its sole discretion.

**c. Additional requirements and considerations for SBL Mortgages (10/17/24)**

In addition to meeting the financial requirements of Section 3.3(a), an SBL Seller/Servicer must have sufficient resources to support the Seller’s SBL Obligations (as described in Chapter 46SBL).

Freddie Mac will require the SBL Seller/Servicer to post the SBL Collateral (as described in Chapter 46SBL) to ensure that it is able to meet its SBL Obligations. For an SBL Seller/Servicer, letters of credit and cash provided to secure its SBL Obligations will be considered as part of its financial strength.

Freddie Mac will periodically review the SBL Seller/Servicer’s financial condition including capitalization, profitability, and funding sources (including letters of credit and cash provided) to ensure that each SBL Seller/Servicer maintains sufficient financial capacity.

**3.4 Servicer-only net worth requirements (01/01/11)**

Each Servicer that is not approved to sell multifamily Mortgages to Freddie Mac, but that is approved by Freddie Mac only for Servicing multifamily Mortgages, must comply at all times with the following minimum net worth requirements:

Net worth category	Requirement
Minimum net worth according to GAAP	\$1 million

**3.5 Annual Certification Report (02/06/17)**

**a. Multifamily Annual Certification Report, Form 16M (02/06/17)**

**1. Seller/Servicer requirement to submit [Form 16M](#)**

Seller/Servicers with the following designations must submit a complete and accurate [Form 16M, Multifamily Annual Certification Report](#), with all required attachments described in the





Form 16M instructions, in accordance with the requirements of this section:

- Freddie Mac Multifamily Approved Conventional Seller/Servicer
- Freddie Mac Multifamily Approved TAH Seller/Servicer
- Freddie Mac Multifamily Approved SBL Seller/Servicer

Freddie Mac requires the submission of [Form 16M](#) even if the Seller/Servicer is currently suspended from selling Mortgages to Freddie Mac.

## 2. Form 16M reporting requirements

Each Seller/Servicer required to complete [Form 16M](#) must use the Multifamily Eligibility System, available at [mf.freddiemac.com/lenders/guide](http://mf.freddiemac.com/lenders/guide), to complete the Form and to submit it to Freddie Mac.

[Form 16M](#) must be submitted to Freddie Mac within 90 days after the end of the Seller/Servicer's fiscal year and in accordance with the provisions of Section 2.14. The Seller/Servicer must use its fiscal year-end results when completing [Form 16M](#).

[Form 16M](#) must be executed by the Seller's or Servicer's authorized representative following the instructions found on the form. Any attachments as required in the Form 16M instructions may be submitted following the instructions found on the form.

### b. Multifamily Annual Certification Report – Multifamily Structured Transaction & Tax-Exempt Bond Seller/Servicers, Form 17M (02/06/17)

1. Each Freddie Mac Multifamily Structured Transaction Seller/Servicer, including each Seller/Servicer approved for tax-exempt bond securitization (TEBS) transactions, must complete [Form 17M](#) within 90 days of the end of the Seller/Servicer's fiscal year. Each such Seller/Servicer must complete every applicable section of the most current version of the report form, or its filings will be returned and its eligibility to participate in Freddie Mac programs may be suspended.

Freddie Mac requires the submission of [Form 17M](#) even if the Seller/Servicer is currently suspended from selling Mortgages to Freddie Mac.

2. Each Seller/Servicer required to complete [Form 17M](#) must use the Multifamily Eligibility System, available at [mf.freddiemac.com/lenders/guide](http://mf.freddiemac.com/lenders/guide), to complete the Form and to submit it to Freddie Mac.

The Seller/Servicer must submit the completed [Form 17M](#) and required accompanying reports within 90 days after the end of the Seller/Servicer's fiscal year following the instructions found on the form.



**c. Multifamily Annual Certification Report – Servicer Only, Form 1110M (05/11/10)**

Annually, a Servicer that is not approved to sell multifamily Mortgages to Freddie Mac, but that is approved by Freddie Mac only for Servicing of multifamily Mortgages, must submit [Form 1110M](#) in accordance with Chapter 39.

**3.6 Reporting requirements for internal control and mortgage bankers quarterly financial report (12/16/21)**

**a. Internal control report (12/16/21)**

Each Seller/Servicer that is not an institution regulated by a federal agency must submit the internal control report with the Seller/Servicer's financial audit. The internal control report must be a separate report stating whether the independent public accountant (IPA) noted any material weaknesses during the audit of the financial statements. The report must be prepared in compliance with the elements set forth in AU-C 940.55.

**b. Mortgage bankers quarterly financial report (02/07/08)**

Each Seller/Servicer that is a mortgage banker must submit a complete and accurate [Form 1055, Mortgage Bankers Financial Reporting Form](#), on a quarterly basis. For reporting purposes, mortgage bankers are firms, other than federally insured depositories, that originate mortgages for sale in the secondary market and/or service mortgages. This definition includes Seller/Servicers that are mortgage banker subsidiaries of federally insured depositories.

Each Seller/Servicer that is a mortgage banker must submit [Form 1055](#) in accordance with the following requirements:

- For reporting periods ending March 31, June 30 or September 30, the Seller/Servicer must file [Form 1055](#) no later than 30 days after the end of the reporting period. For reporting periods ending on December 31, the Seller/Servicer must file [Form 1055](#) no later than 60 days after the end of the reporting period. Mortgage bankers with fiscal years that do not end on December 31 should refer to the instructions that accompany Form 1055 online at [www.mbfrf.org](http://www.mbfrf.org) before completing the report.
- The Seller/Servicer must complete and submit Form 1055 online at <https://www.mbfrf.org>. Seller/Servicers may print Form 1055 from the website, as well as obtain instructions on how to complete the form.

**3.7 Seller/Servicer numbers (06/27/19)**

**a. Use by Seller/Servicers (06/27/19)**

Freddie Mac will issue a Seller/Servicer number to each approved institution. A Seller/Servicer may have more than one Seller/Servicer number if, in addition to having been approved as a Conventional Seller/Servicer, it has also been approved with a different designation, such as a TAH Seller/Servicer, or if it has merged with or acquired another Seller/Servicer.

Unless stated otherwise in the Purchase and Servicing documents, the Seller/Servicer or the Servicer must conduct all business with Freddie Mac with respect to a particular Mortgage under



the Seller/Servicer number that was used in connection with the acceptance of the Letter of Commitment for that Mortgage.

If the Letter of Commitment's agreement-to-service provisions provide for a separate entity to service the Mortgage, the Servicer must conduct all Servicing business with respect to a Mortgage under the Seller/Servicer number that was used in the Letter of Commitment's agreement-to-service provisions.

If Freddie Mac approves a transfer of the Servicing of the Mortgage, then the transferee Servicer must conduct all business with Freddie Mac with respect to the Mortgage under the Seller/Servicer number under which it was approved as a transferee Servicer.

**b. Use by affiliates of Seller/Servicers (06/27/19)**

An affiliate of a Seller/Servicer or Servicer, acting on behalf of the Seller/Servicer or Servicer, in the Seller/Servicer's or Servicer's name, and under the Seller/Servicer's or Servicer's Freddie Mac Seller/Servicer number, must obtain separate Freddie Mac approval.

The Seller/Servicer or Servicer remains fully liable to Freddie Mac under the Purchase and Servicing Documents with respect to any Mortgage originated, sold to, or serviced for Freddie Mac by the affiliate on behalf of the Seller/Servicer or Servicer.

**3.8 Seller/Servicer change notification requirements (08/15/24)**

This section sets forth the requirements to notify Freddie Mac of Seller/Servicer changes and defines the required notification time, information requirements and related fees, where applicable. Freddie Mac reserves the right to evaluate information related to the Seller/Servicer change and to take any action it deems necessary. All organizational change notifications required by this Section 3.8 must be reported to Freddie Mac using [Form 1107M](#). The Seller/Servicer's authorized representative must send a signed copy of the form via email to [Multifamily\\_Eligibility@FreddieMac.com](mailto:Multifamily_Eligibility@FreddieMac.com).

**a. Seller/Servicer changes requiring 60-day advance notice and Freddie Mac approval (08/15/24)**

**1. Major changes require 60-day advance notice and Freddie Mac prior written approval**

A Seller/Servicer must request Freddie Mac's prior written approval at least 60 days before any major change occurs in its ownership or organization by submitting [Form 1107M](#), completing Section A and Section(s) B, C, D or E (as applicable), following the directions on the form. To maintain its eligibility after a major change, the Seller/Servicer must obtain Freddie Mac's written approval prior to such major change. Freddie Mac may require more than 60 days to review the request and respond, in which case Freddie Mac will promptly advise the Seller/Servicer of the need for additional time.

Such major changes include:

- a. Transfer of ownership interests that results in any person or entity directly or indirectly owning a percentage of ownership interests that results in a Change of Control



- b. Transfer by the Seller/Servicer of all or most of its assets or the assets of a subsidiary or a related entity that performs a mortgage-related function
- c. Merger, acquisition or consolidation (including a regulatory agency-assisted transaction)
- d. A major change in the Seller/Servicers' organization that has an effect on the operational capabilities of the Seller/Servicer as it relates to its business with Freddie Mac, including but not limited to, plans for significant staff reduction or significant restructuring of teams associated with production, underwriting or servicing in any capacity for Freddie Mac
- e. Performance of any Freddie Mac-required functions by a subsidiary or other related organization
- f. Change in its charter regarding its purpose or authority
- g. Conversion (such as a thrift institution converting from mutual to stock form)
- h. Contracting with a Servicing Agent for the performance of Freddie Mac Servicing (note: the Servicing Agent chosen by the Servicer must have prior Freddie Mac approval to service the requested collateral type), or
- i. A change of the Seller/Servicer's fiscal year end

## 2. Information required for Freddie Mac approval of the change request

As a part of the request for Freddie Mac approval of the major change, the Seller/Servicer must submit each of the applicable items listed below along with the request for approval of the change at least 60 days prior to the proposed effective date of the change:

- a. For major changes a through e in Section 3.8(a)1 above, a \$30,000 nonrefundable processing fee. The Seller/Servicer must remit the fee to Freddie Mac by wire transfer. Before submitting the [Form 1107M](#) and remitting the fee, the Seller/Servicer must call Freddie Mac *Multifamily Counterparty Risk & Compliance* to obtain wire transfer instructions. The Seller/Servicer must send the wire transfer to the attention of *Multifamily Cash Management*. The wire transfer must include the Seller/Servicer number and the Freddie Mac contact person
- b. A written summary explaining the transaction
- c. As applicable, organizational charts including functional and corporate organizational charts showing the corporate structure of the new entity, including reporting relationships and full legal names of each person or entity shown on the organizational charts
- d. Resumes of managing executives and key personnel, if changing
- e. If the entity resulting from the acquisition or merger is not a currently approved Freddie Mac Seller/Servicer, audited financial statements for that entity, or officer-certified financials or audited financials of the entity's parent company
- f. As applicable, pro forma balance sheet for the resulting entity
- g. As applicable, copies of any applicable regulatory approvals



### 3. Information required at Freddie Mac’s discretion

Freddie Mac may require the Seller/Servicer to provide additional information related to the proposed transaction, including but not limited to:

- Information regarding financing of the transaction
- Copies of revised organizational documents
- Confirmation regarding change to the Named Insured
- Certificate of good standing for the resulting entity or transferee

### 4. Issues for Seller/Servicer analysis and submission required at Freddie Mac’s discretion

As part of the review and approval process, Freddie Mac may also require the Seller/Servicer to address issues relating to:

- Custodial Accounts
- Change of Named Insured on all insurance policies
- Transfer of Servicing (see Chapter 42 for [Transfer of Servicing Agreement – Form 981M](#) or [Transfer of Securitized Servicing Agreement – Form 983M](#) as applicable)
- Personnel retention
- Minimum net worth
- Standard & Poor’s rating
- Assumption of liability
- Evidence of fidelity and E&O coverage
- Evidence of good standing with creditors and investors

#### b. Seller/Servicer changes requiring 30-days’ notice to Freddie Mac (02/16/23)

At least 30 days prior to the effective date of either of the following changes, the Seller/Servicer must submit [Form 1107M, Multifamily Seller/Servicer Change Notification](#), completing Section A and Section B (as applicable) following the directions on the form:

1. The Seller/Servicer will change its name
2. The Seller/Servicer will employ or change a “Doing Business As” (“DBA”) name



**c. Seller/Servicer changes requiring 14-days' notice to Freddie Mac (02/16/23)**

At least 14 days prior to the effective date of any of the following changes, if the changes are not as the result of a transaction addressed in Section 3.8(a), the Seller/Servicer must submit [Form 1107M, Multifamily Seller/Servicer Change Notification](#), completing Section A and Section(s) B, C, D or E (as applicable) following the directions on the form:

1. The Seller/Servicer will change its address
2. The Seller/Servicer will change any of its banking relationships, including a change in the institution to which or from which Freddie Mac funds are wired
3. Any contract between a Seller/Servicer and a vendor, that will have or is reasonably likely to have a Material Adverse Effect, which for the purposes of this Section 3.8, shall mean any event or circumstance having a material adverse effect on:
  - The Seller/Servicer's ability to perform its obligations under the Purchase and Servicing Documents
  - Freddie Mac's interests as an assignee
  - A class or significant group of Borrowers, and/or
  - The economic interests of Freddie Mac or an investor of a Securitization

**d. Seller/Servicer and parent changes requiring immediate notice to Freddie Mac (06/13/24)**

A Seller/Servicer must notify Freddie Mac after the occurrence of any of the following events.

With respect to a Seller/Servicer, such notice must be provided no later than one Business Day after the occurrence of the applicable event.

With respect to any person or entity with either a direct or indirect controlling interest in Seller/Servicer or an aggregate direct or indirect ownership interest in Seller/Servicer of 25% or more (a "Seller/Servicer Parent"), such notice must be provided no later than one Business Day after the Seller/Servicer has knowledge of the applicable event.

1. The Seller/Servicer or a Seller/Servicer Parent has:
  - Filed a voluntarily bankruptcy petition under the United States Bankruptcy Code
  - Become the subject of an order for relief issued in any involuntary bankruptcy proceeding, or
  - Become the subject of any reorganization, receivership, insolvency or similar proceeding under State or federal law
2. A trustee, receiver, custodian, conservator, liquidator or similar entity or individual has been appointed for the Seller/Servicer or a Seller/Servicer Parent or its property
3. Any agency of the federal or State government has placed the Seller/Servicer or a Seller/Servicer Parent on probation or restricted its activities in any manner





4. The Seller/Servicer or a Seller/Servicer Parent has become subject to any judgment, order, finding or regulatory action that would adversely affect the Seller/Servicer's ability to comply with the terms and conditions of the Purchase and Servicing Documents
5. The Seller/Servicer has changed its fiscal year end, not in connection with a transaction addressed in Section 3.8(a)
6. A secondary market agency has terminated its business relationship with the Seller/Servicer or a Seller/Servicer Parent
7. The Seller/Servicer's or a Seller/Servicer Parent's warehouse credit line has been terminated
8. The Seller/Servicer or a Seller/Servicer Parent has violated any financial covenants in its warehouse lending agreement
9. With respect to any dispute, litigation or other adversary proceeding with a vendor that may have a Material Adverse Effect:
  - (a) Receives notice of a dispute not subject to litigation or other adversary proceeding, no later than one Business Day after Seller/Servicer's reasonable determination that such dispute may have a Material Adverse Effect;
  - (b) Initiates litigation or other adversary proceedings asserting claims by or on behalf of the Seller/Servicer that may have a Material Adverse Effect, no later than one Business Day after the initiation of such litigation or proceedings; and
  - (c) Receives notice of litigation or other adversary proceedings asserting claims against the Seller/Servicer that may have a Material Adverse Effect, no later than one Business Day after notice to the Seller/Servicer of any such litigation or proceedings

Within one Business Day after the occurrence of any of the above events, the Seller/Servicer must submit [Form 1107M, Multifamily Seller/Servicer Change Notification](#), completing Section A and Section(s) B, C, D or E (as applicable), following the directions on the form.

Freddie Mac may require the Seller/Servicer to provide additional information concerning the event such as copies of any pleadings or other documents related to the dispute, litigation or other adversary proceedings.

**e. Seller/Servicer changes requiring subsequent notice to Freddie Mac (06/13/24)**

Within 30 calendar days following the occurrence of any of the events set forth in this Section 3.8(e), the Seller/Servicer must submit [Form 1107M, Multifamily Seller/Servicer Change Notification](#), completing Section A and Section(s) B, C, D or E (as applicable), following the directions on the form. Freddie Mac may also require the Seller/Servicer to provide additional information concerning the event.

1. There has been a change in the Seller/Servicer's managing executives, key operating personnel, or the membership of its board of directors, not in connection with a transaction addressed in Section 3.8(a).





- Managing executives and key personnel are defined as officers of the company as well as Chief Underwriter, Chief Architect, Chief Servicing Officer, Chief Compliance Officer, Chief Information Security Officer, Multifamily Eligibility contact and division heads or equivalents in the following mortgage-related functions:
    - mortgage originations
    - operations
    - secondary marketing
    - servicing
  - Additionally, for changes to Seller/Servicer managing executives, key operating personnel, or the membership of its board of directors, the Seller/Servicer must submit a resume for each new individual or individual entering a new role, whether or not Freddie Mac approval is required.
2. There has been a change in the Seller/Servicer's top five major investors
  3. There has been a change in the Seller/Servicer's external auditor
  4. There has been a change to the Seller/Servicer email domain name

### 3.9 Seller/Servicer Material Vendor change notification requirements (06/15/23)

The Seller/Servicer must update the Vendor Inventory in the Multifamily Eligibility System within 10 Business Days of the date of onboarding or termination of a Material Vendor.

For the purposes of this Section 3.9:

- The date of onboarding is the date when the Material Vendor begins to provide services to the Seller/Servicer
- The date of termination is the date when:
  - The contract with the Material Vendor ends, or
  - The Seller/Servicer makes a determination that the Material Vendor is no longer providing services to the Seller/Servicer

Refer to the Material Vendors [web page](#) on [mf.freddiemac.com](http://mf.freddiemac.com) for more details and examples of Material Vendors.

### 3.10 Loans-in-process and existing Mortgages (07/31/12)

#### a. Special terms (02/07/08)

For purposes of this section, the following terms will have the meanings indicated:



**1. Acquired Entity**

The Seller/Servicer(s) that will be acquired by, or that will merge into, the Resulting Entity

**2. Loan-in-Process**

A Mortgage that has been assigned a Freddie Mac loan number

**3. Resulting Entity**

The Seller/Servicer that will acquire the Acquired Entity, or that will result from the merger of two or more Seller/Servicers

**4. Effective Date**

The effective date of the acquisition or merger

**b. Existing Mortgages (07/31/12)**

With respect to all Mortgages sold to Freddie Mac by the Acquired Entity and all Mortgages serviced by or on behalf of the Acquired Entity for Freddie Mac, as of the Effective Date, the Resulting Entity will be obligated for all representations and warranties with respect to the Mortgages that are set forth in the fully-executed Commitment, this Guide and any other Purchase and Servicing Documents, including any other agreements between or among the Acquired Entity and Freddie Mac. All references to the “Seller” or “Seller/Servicer” in the representations and warranties, including references to the knowledge of the “Seller” or to acts or disclosures of the “Seller,” will be deemed to refer to the Resulting Entity.

As of the Effective Date, for purposes of the representations and warranties, any knowledge of either of the Acquired Entity or the Resulting Entity will be attributed to the Resulting Entity, and any acts or disclosures by either of the Acquired Entity or the Resulting Entity prior to Freddie Mac’s purchase of a Mortgage will be deemed to have been committed or made by the Resulting Entity.

**c. Commitment, delivery and purchase of Loans-in-Process (02/07/08)**

1. In the case of a Loan-in-Process, “Seller’s full underwriting package” in the “Material Differences” provision of the Commitment will be deemed to refer to any full underwriting package submitted by the Acquired Entity with respect to that Loan-in-Process, together with any underwriting information submitted by the Resulting Entity.
2. As of the Effective Date, the Resulting Entity will be obligated for all representations and warranties with respect to the Loans-in-Process that are set forth in the fully-executed Commitment, the Guide and any other Purchase and Servicing Documents. All references to the “Seller” or “Seller/Servicer” in the representations and warranties, including references to the knowledge of the “Seller” or to acts or disclosures of the “Seller,” will be deemed to refer to the Resulting Entity. As of the Effective Date, for purposes of the representations and warranties, any knowledge of either of the Acquired Entity or the Resulting Entity will be attributed to the Resulting Entity, and any acts or disclosures by either of the Acquired Entity or the Resulting Entity prior to Freddie Mac’s purchase of a Loan-in-Process will be deemed to have been committed or made by the Resulting Entity.



3. Upon Freddie Mac's purchase of each Loan-in-Process, the Resulting Entity must service the Loan-in-Process in accordance with the applicable fully-executed Commitment, the Guide and any other Purchase and Servicing Documents.

**d. Categories of Loans-in-Process (07/31/12)**

Upon the effective date of an acquisition of a Seller/Servicer or the merger of two Seller/Servicers, the commitment, delivery and purchase for Loans-in-Process will be completed as described in whichever of the following subsections (1) through (4) is applicable to that Loan-in-Process, and in accordance with the provisions in Section 3.10(c).

**1. Loans-in-Process that are the subject of fully-executed Commitments and have been originated by the Acquired Entity before the Effective Date, but have not been purchased by Freddie Mac as of the Effective Date**

The Resulting Entity represents and warrants to Freddie Mac that the Acquired Entity has originated each Loan-in-Process in this category that has not yet been delivered to Freddie Mac, since Freddie Mac has no independent knowledge that a Mortgage has been originated until it receives delivery of that Mortgage.

As the successor to the Acquired Entity, the Resulting Entity assumes all of the obligations of the Acquired Entity under each such fully-executed Commitment as of the Effective Date. Each such Loan-in-Process that has not been delivered to Freddie Mac as of the Effective Date may be delivered to Freddie Mac by either the Resulting Entity or, so long as the Acquired Entity remains a legal entity, the Acquired Entity. Freddie Mac will wire the purchase price for each such Loan-in-Process in accordance with the wire transfer instructions included in the Final Delivery Package for the Loan-in-Process.

**2. Loans-in-Process that are the subject of fully-executed Commitments but have not been originated by the Acquired Entity before the Effective Date**

As the successor to the Acquired Entity, the Resulting Entity assumes all of the obligations of the Acquired Entity under each such fully-executed Commitment as of the Effective Date. If interest rate-lock under any such fully-executed Commitment has not been completed as of the Effective Date, the Resulting Entity will complete the interest rate-lock. The Resulting Entity will originate each such Loan-in-Process and will deliver it to Freddie Mac.

**3. Loans-in-Process for which Freddie Mac has issued commitments that have not become fully-executed Commitments because the Acquired Entity has not accepted the Commitments before the Effective Date**

As the successor to the Acquired Entity, the Resulting Entity assumes all of the rights of the Acquired Entity under each such issued Commitment as of the Effective Date. The Resulting Entity may accept each such Commitment by following the acceptance procedure set forth in Section 17.11(b), whereupon the accepted Commitment will become a fully-executed Commitment between Freddie Mac and the Resulting Entity. The Resulting Entity will complete the interest rate-lock under each such fully-executed Commitment, originate the related Loan-in-Process and deliver that Loan-in-Process to Freddie Mac.



**4. Loans-in-Process for which the Acquired Entity has submitted early rate-lock applications to Freddie Mac that Freddie Mac has not yet executed (accepted) as of the Effective Date**

For each such Loan-in-Process, as of the Effective Date, the Resulting Entity makes an irrevocable offer to sell the Loan-in-Process to Freddie Mac on the terms and conditions described in the applicable early rate-lock application, which offer will be irrevocable through the Expiration Date specified in that application. Freddie Mac may accept any such offer at any time by executing the related early rate-lock application, whereupon the early rate-lock application will become a fully-executed Commitment between the Resulting Entity and Freddie Mac. The Resulting Entity will be substituted fully for the Acquired Entity as the offerer and Seller under each such application. If and when such an early rate-lock application or a resulting fully-executed Commitment requires a refund of the good faith deposit, Freddie Mac will make that refund to the Resulting Entity.

**3.11 Disposition of application; confidentiality (02/07/08)**

If a Seller/Servicer fails to seek or obtain any approval of Freddie Mac as required by this chapter, Freddie Mac may suspend or terminate with cause certain rights and approvals of the Seller/Servicer, including its right to sell Mortgages to Freddie Mac, in accordance with Chapters 4 and 48.

A Seller/Servicer may designate information submitted in connection with any notice or request for approval under this chapter as confidential. Freddie Mac will receive and hold all such confidential information in strict confidence, to be used only for Freddie Mac's internal review and approval process. Freddie Mac may release such confidential information to independent auditors, accountants, attorneys and other professionals acting on behalf of Freddie Mac or if ordered to do so by a court, regulator, administrative agency or other entity with enforceable subpoena power.

**3.12 Changes that affect Seller/Servicer's single-family Freddie Mac approval (02/07/08)**

The requirements of Sections 3.8 through 3.11 apply to entities selling multifamily Mortgages to Freddie Mac or servicing multifamily Mortgages for Freddie Mac. Requirements for notification to Freddie Mac of changes affecting the Seller/Servicer's single-family Freddie Mac activities may differ. Multifamily Seller/Servicers that are approved for both single-family and multifamily purposes must comply with both sets of requirements relating to changes in the Seller/Servicer's organization or status.

**3.13 Additional requirements applicable to TAH Seller/Servicers (08/18/22)**

Each TAH Seller/Servicer must have five or more years of experience in lending for affordable multifamily properties benefiting from:

- 9 percent Low Income Housing Tax Credits (LIHTC) as a source of capital
- Sources of capital specific to housing preservation
- Tax-exempt bond financing with or without LIHTC

Each TAH Seller/Servicer must develop and maintain expertise in the areas of affordable housing finance, including tax-exempt bond finance, and regulatory requirements affecting LIHTC, tax-exempt



bonds and rental and operational subsidy programs. It must maintain successful working relationships with third party professionals, such as appraisers with experience in evaluating affordable multifamily properties, construction and environmental engineers, architects and other affordable housing professionals. Each TAH Seller/Service must demonstrate that its current staffing plan is able to meet forecasted volumes.

In addition, each TAH Seller/Service must maintain specialized underwriting staff who are experienced and knowledgeable about underwriting debt financing for affordable multifamily properties. Specifically, each TAH Seller/Service must have:

- One or more TAH Underwriting Supervisors with approximately seven to 10 years of experience in underwriting affordable multifamily properties, to include those with:
  - 9 percent LIHTC equity as one of the capital sources for construction or rehabilitation
  - Other rental and operational subsidy programs for LIHTC and affordable multifamily properties
  - Capital, rental and operational subsidy programs designed to preserve affordable multifamily properties, including those with restrictive covenants
  - Tax-exempt bonds and LIHTC equity as capital sources
  - Forward commitments and substantial rehabilitations, if the TAH Seller/Service wishes to do Forward Commitments
- At least two Senior Underwriters with a minimum of five years of debt underwriting experience with LIHTC equity and other sources of capital for affordable multifamily properties

The TAH Underwriting Supervisor(s) must be approved by Freddie Mac as part of the TAH Seller/Service approval process, and at least one TAH Underwriting Supervisor must approve each prescreen package and underwriting package submitted to Freddie Mac. If a TAH Seller/Service wishes to change a staff member in the TAH Underwriting Supervisor position, it must submit a written request to Targeted Affordable Housing Home Office Underwriting, which may be in the form of an email. Freddie Mac will respond in writing with its decision.

Each TAH Seller/Service entering into a Forward Commitment must have designated staff with 10 or more years of experience with forward commitments, substantial rehabilitations and other construction-related loans for affordable multifamily properties. The Seller must ensure that it maintains on its staff or a relationship with a third party Chief Architect/Engineer with the following background:

- At least five years' experience in construction lending and the origination and management of construction loans, and
- A professional background or accredited degree in the field of engineering, architecture or construction management, or 10 years of experience and demonstrated knowledge of building materials and design, construction processes and documentation, cost analysis, and project scheduling

The Chief Architect/Engineer must review construction related information at commitment, during construction and at Conversion, in accordance with Guide Chapters 19A, 25A and 28A.



### 3.14 Additional requirements applicable to Seniors Housing Seller/Servicers (09/01/16)

Each Seniors Housing Seller/Servicer must maintain specialized staff that is experienced and knowledgeable in the structure and origination of Freddie Mac Seniors Housing mortgages. Specifically, each Seniors Housing Seller/Servicer must employ:

- At least one senior producer with a minimum of five to seven years of significant GSE loan origination experience with Seniors Housing properties. Relevant experience includes origination of independent living, assisted living, memory care, and Continuing Care Retirement Community (CCRC) property loans. The producer's experience in originating Seniors Housing loans for the portfolio of the Seller or other lenders will also be taken into consideration.
- At least one senior underwriter with a minimum of five to seven years of significant GSE loan underwriting experience for Seniors Housing properties. Relevant experience includes underwriting independent living, assisted living, memory care, and CCRC property loans. The underwriter's experience in underwriting Seniors Housing loans for the portfolio of the Seller or other lenders will also be taken into consideration.

In addition to the above requirements, each Seniors Housing Seller/Servicer must develop and maintain expertise in Seniors Housing evidenced by:

- A successful working relationship with third party professionals including appraisers with experience in evaluating Seniors Housing assets, inspection engineers, insurance consultants, and resident care survey consultants
- Demonstrated stable, clear roles and responsibilities for underwriting and credit oversight
- A thorough review of risks and mitigants in credit submission packages for all Seniors Housing transactions closed
- Clear, well considered, and supported recommendations that demonstrate an understanding of Freddie Mac's current underwriting parameters and risk tolerance for Seniors Housing transactions
- Retention of legal counsel experienced and competent in the structure, origination, and delivery of Freddie Mac Seniors Housing mortgages

### 3.15 Additional requirements applicable to Seller/Servicers (01/01/25)

#### a. Policies and procedures (01/01/25)

Seller/Servicers must adopt, maintain and administer written minimum policies and procedures that address doing business in compliance with Freddie Mac requirements, in accordance with Section 2.19(a).

#### b. Additional requirements applicable to SBL Seller/Servicers (12/14/23)

Each SBL Seller/Servicer must:





- Have access to dedicated resources that specialize in the origination and servicing of small balance loans
- Have a servicing portfolio consisting of small balance loans with a strong performance history
- Have a technology/systems platform supporting the origination, underwriting, closing and servicing of a large number of small balance loans, that is capable of:
  - Providing pricing of transactions
  - Tracking an SBL Mortgage from the price quote and origination of the SBL Mortgage to Servicing
  - Generating reports on the servicing portfolio, with the ability to identify Freddie Mac SBL Mortgages
  - Providing access to all areas of the Seller/Servicer’s organization that are involved in loan origination and Servicing
  - Capturing and providing data required by Freddie Mac
- Have a technology/systems platform that is capable of accepting ACH transactions

**c. Additional requirements applicable to Seller/Servicers with broker or correspondent relationships (12/14/23)**

1. **Broker; Correspondent.** The terms “broker” and “correspondent” refer to any individual and/or entity who arranges or otherwise brokers the Mortgage loan financing for the Property with the Seller/Servicer on behalf of the Borrower, whether such individual or entity is referred to as a broker, mortgage broker or a correspondent. For the purposes of this chapter, the terms “broker” and “correspondent” may sometimes be referred to together as “broker/correspondent.”
  - For acquisition financing, an investment sales team, investment sales team representative or listing agent retained by the Property seller and not otherwise engaged by the borrower in connection with the loan financing (for the purposes of these policies, individually or collectively referred as the “investment sales team”) will not be considered a “broker/correspondent” for the purposes of this chapter.
2. **Initial information.** The following requirements regarding brokers and correspondents must be satisfied:
  - A. **Non-Small Balance Loans.** For any loan that is not a Small Balance Loan:
    - i. Broker and correspondent firms and individual names must be disclosed to Production at loan submission for a Quote request in the Loan Submission Template (LST).
    - ii. Quote requests involving a broker/correspondent must be accompanied by a confirmation from the Borrower that the Seller/Servicer is the sole lender authorized to submit the loan to Freddie Mac.





- iii. The [Optigo® Lender's Fee Certification – Conventional & Targeted Affordable Housing](#) form must be submitted with delivery of the underwriting package for any transaction that involves a broker or correspondent.
- B. **Small Balance Loans.** For Small Balance Loans, the Seller/Servicer must complete the broker information (deal contacts) tab in the Pipeline Management Tool (PMT) at loan application and provide updates if the information changes at Full Underwriting.
- C. **Inspection process.** The broker/correspondent must not be involved in the Property inspection process. The Seller/Servicer must manage the inspection process in accordance with the inspection requirements set forth in Chapters 8 and 40. This also includes any inspections performed in connection with Freddie Mac required third-party reports or appraisals.
- D. **Due diligence; chain of custody.**
- i. All source documentation, due diligence and other underwriting documentation relating to the Property, the Borrower and Borrower Principals (*i.e.*, rent rolls, aged receivables, operating statements, financial statements, etc., but excluding required reports ordered by the Seller/Servicer from third parties) must be delivered directly to the Seller/Servicer by the Borrower and Borrower Principals or the member, partner, director or employee of the Borrower or Borrower Principal's firm authorized to deliver such documentation on behalf of the Borrower or Borrower Principal, without the broker/correspondent being in the chain of custody of the documentation. Seller/Servicers must communicate directly with the Borrower and Borrower Principals or their authorized representatives with respect to source documentation, due diligence and other underwriting matters.
  - ii. For acquisition financing, Freddie Mac may provide a "soft quote" or "preliminary quote" to a Seller/Servicer based upon financial information obtained from the Property seller and provided to the Seller/Servicer by an investment sales team. However, for issuance of a Quote (as provided in Section 27.3 and other chapters), the source documents and due diligence must be delivered directly to the Seller/Servicer by the Borrower and Borrower Principals or the authorized representatives of such parties, as provided above.
  - iii. When a broker/correspondent arranges or otherwise brokers the Mortgage loan financing for the Property with the Seller/Servicer on behalf of the Borrower, the Seller/Servicer must preserve emails or other documentation regarding the Seller/Servicer's compliance with the due diligence and underwriting documentation chain of custody requirements set forth in this section.
  - iv. By submission of source documents, due diligence or other underwriting documentation to Freddie Mac, the Seller/Servicer will be deemed to represent and warrant to Freddie Mac that it has complied with the requirements of this subsection.
- E. **Index Lock.** Prior to any Index Lock, for all transactions submitted to the Seller/Servicer through a broker/correspondent:



- i. The Seller/Servicer must either (a) have conducted a preliminary property inspection of the Property, consisting of the elements described in Section 8.15(a), or (b) for a refinance of a Freddie Mac Mortgage, have reviewed a servicing inspection of the Property completed in accordance with Chapter 40 and dated within 120 days from Index Lock and determined it was acceptable.
  - ii. The Seller/Servicer must have received source documentation and other due diligence directly from the Borrower as noted in Section 3.15(c)2.D. above, and in addition, for first-time sponsors only, financial statements for the proposed Borrower Principal(s) and, when applicable, the proposed Guarantor(s).
  - iii. The Seller/Servicer must submit the [Optigo Lender's Index Lock Agreement Certification for Broker/Correspondent Loans](#).
- F. **Broker/Correspondent policies and searches.** When a Seller/Servicer engages a broker/correspondent or otherwise has an agreement to compensate a broker/correspondent for referring a Borrower to the Seller/Servicer in connection with the financing of Freddie Mac Mortgage(s), the Seller/Servicer must (i) develop and implement internal policies and procedures to address the broker/correspondent firm's business, including qualifications for determining acceptability, which must be periodically reviewed, as well as performance monitoring and quality control reviews, and (ii) complete a broker/correspondent background search periodically for both the firm and the individuals employed at the firms who are involved in the Mortgage transactions.
- NOTE: When a Seller/Servicer refers a Mortgage loan to another Seller/Servicer, the referring Seller/Servicer is not subject to the requirements in this subsection "F."

### 3.16 Seller/Servicer's fidelity and errors & omissions insurance coverage (02/16/23)

The Seller/Servicer must maintain in effect, at all times and at its expense, fidelity insurance and mortgagee's errors and omissions (E&O) insurance that meets all of the requirements of this Section.

#### a. Acceptable insurer (09/26/19)

The fidelity insurance and mortgagee's errors and omissions (E&O) insurance must be underwritten by one or more insurers authorized by law to conduct business in the jurisdiction where the Seller/Servicer is located. Such insurers must meet or exceed at least one of the requirements below:

1. Minimum A.M. Best rating:
  - Financial Strength Rating of "A-", AND
  - Financial Size Category of "VII"

OR



2. If rated by Fitch, Inc., Standard & Poor's Ratings Services or Moody's Investors Service, Inc., a minimum Financial Strength Rating of:
  - "A-" or its equivalent by Fitch, Inc., or
  - "A-" or its equivalent by Standard & Poor's Ratings Services, or
  - "A3" or its equivalent by Moody's Investors Service, Inc.

**b. Seller/Servicer fidelity insurance coverage (09/26/19)**

**1. General fidelity insurance requirements**

The Seller/Servicer must maintain fidelity insurance coverage in the form of a financial institution bond or equivalent. The financial institution bond or equivalent must be written on a Discovery Policy Form and must include the following insuring agreements/coverage:

- Fidelity/Employee Dishonesty
- On Premises
- In Transit
- Forgery or Alteration
- Securities/Extended Forgery

The insurance must protect the Seller/Servicer against loss resulting from dishonest or fraudulent acts committed by:

- Officers and/or employees of the Seller/Servicer
- Persons duly authorized by the Seller/Servicer to act on its behalf in the servicing of mortgages
- Employees of outside firms who provide legal services to the Seller/Servicer or who perform as data processors of checks for the Seller/Servicer, unless such firms have provided to the Seller/Servicer satisfactory evidence of fidelity insurance at least equal to that required of the Seller/Servicer by Freddie Mac
- Persons assigned to the Seller/Servicer through an intervening employer or agency to perform the usual duties of an employee of the Seller/Servicer on a contingent or temporary basis

Additionally, the policy must:

- Name Freddie Mac as a loss payee as its interest may appear on payment drafts issued by the insurer for losses in which Freddie Mac has an interest resulting from acts



covered by the insurance,

- Upon failure of the Seller/Servicer to make a claim, give Freddie Mac the right to file a claim directly with the insurer for losses in which Freddie Mac has an interest in connection with acts covered by the insurance, and
- Not limit any improper financial benefit required by the definition of dishonesty solely to the employee's own improper personal gain

## 2. Fidelity insurance requirements – single loss limit of liability

For all losses discovered during the policy term, the Seller/Servicer must, at a minimum, maintain fidelity insurance (single loss or per occurrence) as shown in the table below.

Base* (Insured Portfolio UPB)	Coverage Calculations by Base*	Cap
≤ \$100 million	\$2.5 million	N/A
>\$100 million and ≤ \$500 million	\$2.5 million + 0.125% * Base over \$100 million	N/A
>\$500 million and ≤ \$1 billion	\$3 million + 0.1% * Base over \$500 million	N/A
> \$1 billion	<i>The lesser of:</i>  \$3.5 million + 0.075% * Base over \$1 billion  <i>or</i>  \$150 million	\$150 million

- \* Base = the aggregate unpaid principal balance of all loans covered by the fidelity insurance policy
- \*\* Freddie Mac does not require more than \$150 million in fidelity coverage, regardless of Base

## 3. Fidelity insurance deductible/SIR

The maximum deductible or SIR (self-insured retention) or combined deductible and SIR allowed for any one fidelity loss is the higher of (i) \$250,000 or (ii) ten percent of the minimum single loss limit of fidelity insurance required by Freddie Mac per occurrence.



The deductible or SIR or combined deductible and SIR may not be calculated based on the actual limit of insurance in force.

**c. Seller/Servicer errors & omissions (E&O) insurance coverage (09/26/19)**

**1. Seller/Servicer E&O insurance requirements**

The Seller/Servicer must maintain mortgagee’s E&O insurance or the equivalent coverage. The policy may be written on a Claims Made Policy Form or an Occurrence-based Policy Form. The Seller/Servicer must notify Freddie Mac if the Seller/Servicer plans to switch the coverage:

- From a Claims Made Policy Form to an Occurrence-based Policy Form, or
- From an Occurrence-based Policy Form to a Claims Made Policy Form

Freddie Mac reserves the right to review and approve the change.

The mortgagee’s E&O coverage or the equivalent coverage must protect the Seller/Servicer against loss resulting from negligence, errors and/or omissions, including the following:

- Failure to determine whether the Property is located in a Special Flood Hazard Area (SFHA) as defined by the Director of the Federal Emergency Management Agency (FEMA)
- Failure to maintain any and all of the insurance (property and liability insurance) required by Chapter 31, as amended by the Purchase and Servicing Documents
- Failure to pay real estate taxes, ground rents and/or any other mandatory assessments on the Property, as required

Additionally, the policy must:

- Name Freddie Mac as a loss payee as its interest may appear on payment drafts issued by the insurer for losses in which Freddie Mac has an interest resulting from acts covered by the insurance, and
- Upon failure of the Seller/Servicer to make a claim, give Freddie Mac the right to file a claim directly with the insurer for losses in which Freddie Mac has an interest in connection with acts covered by the insurance

**2. E&O insurance coverage requirements**

The Seller/Servicer must maintain E&O insurance in an amount at least equal to the minimum required as shown in the table below.

Base* (Insured Portfolio UPB)	Coverage Calculations by Base*	Cap
-------------------------------	--------------------------------	-----



≤ \$100 million	\$2.5 million	N/A
> \$100 million and ≤ \$500 million	\$2.5 million + 0.125% * Base over \$100 million	N/A
> \$500 million and ≤ \$1 billion	\$3 million + 0.1% * Base over \$500 million	N/A
> \$1 billion	<i>The lesser of:</i>  \$3.5 million + 0.05% * Base over \$1 billion  <i>or</i>  \$50 million	**\$50 million

- \* Base = the aggregate unpaid principal balance of all loans covered by the E&O insurance policy
- \*\*Freddie Mac does not require more than \$50 million in E&O coverage, regardless of Base

**3. E&O deductible/SIR**

The maximum deductible or SIR or combined deductible and SIR allowed for any one E&O loss is the higher of (i) \$250,000 or (ii) ten percent of the minimum limit of E&O insurance required by Freddie Mac per occurrence.

The deductible or SIR or combined deductible and SIR may not be calculated based on the actual limit of insurance in force.

Freddie Mac reserves the right to review and approve the terms of such a policy.

**d. Documentation of fidelity and E&O insurance (02/16/23)**

**1. Acceptable documentation**

Within 30 days of obtaining or renewing fidelity and/or mortgagee’s E&O insurance, the Seller/Servicer must submit acceptable proof of insurance to *Multifamily Counterparty Risk & Compliance* on one of the following:

- ACORD 25, Certificate of Liability Insurance (or other appropriate ACORD form)
- Certificate of insurance
- Evidence of insurance



- Declarations page
- Policy

## 2. Required information

Each form of documentation must include all of the following:

- Name of insurer
- Bond or policy number
- The Seller or Seller/Servicer, as applicable, as named insured or joint named insured
- Entity covered by the insurance policy
- Freddie Mac named loss payee
- Type of insurance and coverage
- Effective date and expiration date of coverage
- Deductible or SIR or combined deductible and SIR
- Any endorsement or optional coverage modifying the original bond or policy if the endorsement or optional coverage reinforces compliance with Freddie Mac's requirements or reduces the coverage required by Freddie Mac (The Seller/Servicer must submit a copy of the endorsement or optional coverage if the endorsement or optional coverage is not summarized on the certificate or other documentation.)
- Coverage amount:
  - For fidelity insurance, the single loss (per occurrence) limit of liability and the maximum single loss limit of liability and any aggregate, if applicable to the policy
  - For E&O insurance, the per occurrence limit of liability and any applicable sub-limits
- The aggregate unpaid principal balance of all loans covered by the fidelity insurance policy
- The aggregate unpaid principal balance of all loans covered by the E&O insurance policy

### e. Blended fidelity and E&O insurance policies (02/16/23)

The Seller/Servicer must contact *Multifamily Counterparty Risk & Compliance* if the fidelity and E&O insurance is purchased in a blended policy. A blended policy has an aggregate limit that covers both fidelity and E&O insurance.





Freddie Mac reserves the right to review and approve the terms of such a policy.

**f. Reinstatement of coverage (02/16/23)**

If the Seller/Servicer fidelity and/or E&O insurance limits fall below 80 percent of Freddie Mac's requirements, the Seller/Servicer must contact *Multifamily Counterparty Risk & Compliance*.

**g. Self-insurance and Fidelity and/or E&O insurance provided by a captive insurance company (09/26/19)**

Seller/Servicers that self-insure or utilize insurance carriers whose ratings do not meet the requirements set forth in Section 3.16(a) must themselves meet at least two of the following ratings:

- "A" from Fitch Ratings
- "A" from Standard & Poor's Global Ratings
- "A2" from Moody's Investors Service
- "A-" from Kroll Bond Rating Agency
- "A" from DBRS, Inc.

**h. Other Seller/Servicer obligations for fidelity and E&O insurance (02/16/23)**

**1. Notice of change in coverage**

The Seller/Servicer must report to Freddie Mac the following events within 10 Business Days of their occurrence using [Form 1107M, Seller/Servicer Change Notification Form](#):

- The receipt of a notice from the insurer that the insurer has taken or intends to take action to cancel, reduce, not renew or restrictively modify the Seller/Servicer's fidelity or mortgagee's E&O insurance for any reason. The Seller/Servicer must include a copy of the insurer's notice and detail the reasons for the insurer's action or intended action if not stated in the insurer's notice. The Seller/Servicer must also report its efforts to obtain replacement coverage or otherwise satisfy Freddie Mac's insurance requirements.
- The determination that any single act of embezzlement, theft of funds or fraud or mortgagee's E&O loss has caused a loss exceeding \$100,000, whether or not Freddie Mac's interests are affected, or a claim is filed with the insurer.

**2. Obligation to compensate**

The Seller/Servicer is obligated to compensate Freddie Mac in full for any loss Freddie Mac sustains that is not recovered from the proceeds of claims made against the required fidelity and/or mortgagee's E&O insurance.



Freddie Mac's requirements for fidelity and mortgagee's E&O insurance do not diminish, restrict or otherwise limit the Seller/Servicer's responsibilities and obligations stated in the Purchase and Servicing Documents.

### 3. Notice of loss

Within 10 Business Days of a loss greater than \$100,000, the Seller/Servicer must:

- Notify *Multifamily Counterparty Risk & Compliance* in all instances.
- If the loss impacts Freddie Mac's interests, file a claim with its insurer and provide evidence of the claim report to *Multifamily Counterparty Risk & Compliance*, or notify *Multifamily Counterparty Risk & Compliance* of its intent not to file a claim.

### 4. Annual certification

The Seller/Servicer must certify compliance with Freddie Mac's requirements, including Freddie Mac's requirements for fidelity and mortgagee's E&O insurance, as specified in Section 3.5.

## 3.17 Non-discrimination (12/14/23)

1. Freddie Mac requires all Seller/Servicers to:

- Practice the principles of equal employment opportunity and non-discrimination in all its business activities. As such, each Seller/Servicer must not discriminate on the basis of race, color, religion, sex, age, marital status, disability, veteran status, genetic information (including family medical history), pregnancy status, national origin, ethnicity, familial status, sexual orientation, gender identity or other characteristic protected by law.
- Contractually require each subcontractor it engages to provide services or goods for the use of Freddie Mac to practice the principles of equal employment opportunity and non-discrimination in all its business activities.

2. Upon request by Freddie Mac, a Seller/Servicer must provide Freddie Mac with information and appropriate certifications regarding:

- The diversity status of the Seller/Servicer
- The diversity status of subcontractors engaged by the Seller/Servicer to provide services or goods for the use of Freddie Mac with respect to originating or servicing Mortgages under the Purchase Documents
- Any other information Freddie Mac requests in order to comply with HERA and applicable diversity and inclusion regulations