8SBL.1 Introduction (06/30/16)

8SBL.2 Structure (06/16/22)
- a. Structure type and habitability (06/16/22)
- b. Commercial use (06/30/16)
- c. Reserved (06/30/16)
- d. Aluminum wiring (06/30/16)
- e. Reserved (06/30/16)

8SBL.3 Moisture or Mold issues (08/17/23)
- a. Moisture Management Plan (08/17/23)
- b. Increased Scrutiny for Moisture or Mold Issues (02/28/18)
- c. Special Moisture or Mold Issues Inspection (06/30/16)

8SBL.4 Occupancy (09/30/20)

8SBL.5 Zoning and building code conformity; certificates of occupancy (09/26/19)

8SBL.6 Independent Property (09/26/19)
- a. General Requirements (06/30/16)
- b. Essential Facilities and Recreational Facilities (06/30/16)
- c. Purchase of an SBL Mortgage secured by a Property that is not an Independent Property (09/26/19)
- d. Indirect access (access via easement) (06/30/16)
- e. Shared Essential Facilities and Recreational Facilities; Shared Use Agreement (06/29/17)
- f. Reserved (09/26/19)

8SBL.7 Tax parcels, taxes and utilities (06/30/16)
- a. Tax parcels (06/30/16)
- b. Taxes and utilities (06/30/16)

8SBL.8 Owner-Occupied units (06/29/17)

8SBL.9 Reserved (06/30/16)

8SBL.10 No condemnation or other adverse circumstances—Property (06/30/16)

8SBL.11 Nonresidential leases (06/29/17)
- a. General (06/30/16)
- b. Analysis (06/29/17)
- c. Tenant improvements and leasing commissions (06/30/16)
- d. Reserved (06/30/16)
- e. Subordination, nondisturbance and attornment (SNDA) (06/30/16)
- f. Subordination of a commercial lease with Affiliate (06/30/16)

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

8SBL.12 Subordinate Financing (06/30/16)

8SBL.13 General property management requirements (04/13/23)

8SBL.14 SBL Mortgages ineligible for purchase (12/15/22)

8SBL.15 Property inspections and lease audits (04/18/24)
- a. Reserved (10/12/17)
- b. Complete property inspection and lease audit (04/18/24)
- c. Timing of property inspections and lease audits (02/18/21)

8SBL.16 Reserved (03/03/17)

8SBL.17 SBL Physical Risk Report (09/30/20)

8SBL.18 Condominiums (06/29/18)
- a. Condominiums (10/12/17)
- b. Reserved (06/29/18)
- c. Reserved (06/30/16)
- d. Reserved (06/30/16)
- e. Reserved (03/03/17)

8SBL.19 Tax abatements (04/14/22)
- a. Tax abatement definition and overview (06/30/16)
- b. Tax abatement eligibility (04/14/22)
- c. Documentation required for underwriting package and tax abatement approval (04/14/22)
- d. Collateral valuation for tax abatement (06/30/16)
- e. Refinance test and DCR calculation for Properties with tax abatements (06/30/16)

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

8SBL.1 Introduction (06/30/16)

This chapter details Freddie Mac's requirements for the Property secured by a Small Balance Loan (SBL) Mortgage.

These Property requirements also apply to SBL Special Servicing Requests when appropriate.

8SBL.2 Structure (06/16/22)

a. Structure type and habitability (06/16/22)

The Property must be designed, in whole or in part, for residential use and contain five or more dwelling units. If a Property is in New York and contains six or fewer dwelling units, the Seller must confirm whether it is required under State law to pay a portion of the mortgage recording tax and the Seller must pay such tax at origination of SBL Mortgage if so required; the Seller may not pass the cost of such tax through to the Borrower.

Construction of the Property, including subsurface utilities and off-site improvements, must be completed as of the Delivery Date. If improvements cannot be completed for valid reasons, such as inclement weather, an adequate Reserve for the incomplete items must be established. Reserves must also be established for any repairs, improvements, alterations, conditions or construction as required by Freddie Mac. A satisfactory completion certificate, accompanied by color photographs, must be submitted to Freddie Mac.

Each residential unit in the Property must contain kitchen and bathroom facilities. The Property must be served by public water and sanitary sewer systems.

The Borrower must not participate in home sharing activities, which are defined as short-term rentals (typically less than one month) that are marketed through a peer-to-peer online marketplace or a home sharing platform, nor enter into leases, including master leases, of residential, corporate or commercial units that the Borrower knows or should have known are intended to be used by the tenants for full or part-time home sharing activities. For clarity, nonexclusive examples of home sharing platforms include Airbnb, VRBO, and booking.com.

b. Commercial use (06/30/16)

Some multifamily rental properties contain space used for commercial (nonresidential) purposes. In addition to space occupied by typical commercial establishments, Freddie Mac also considers suites leased to professionals, such as physicians, dentists and attorneys, and used in the conduct of their professions, to be commercial space. Freddie Mac considers leases for oil, gas and minerals located on, beneath or upon the Property to be commercial use as well.

Mortgages on such Properties are eligible for purchase under Freddie Mac's SBL Purchase Product, provided that each of the following conditions is satisfied:

- Commercial usage is permitted under local zoning and use ordinances
- Utilization of the commercial space is compatible with the Property and the neighborhood

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

- The amount of commercial income recognized and the lease term must be supported by market comparison
- Underwritten commercial income is no more than 40 percent of Gross Potential Rent (GPR) and is otherwise acceptable to Freddie Mac
- Square footage devoted to commercial space is no more than 40 percent of the Net Leasable Space and is otherwise acceptable to Freddie Mac

Freddie Mac reserves the right to require additional documentation or information for mixed-use properties, including copies of commercial space leases, lease analyses, tenant estoppels, comparable commercial rental and vacancy rate data or other data regarding comparable properties, lease rollover analysis, and separate commercial space income and expense operating history and pro forma.

c. Reserved (06/30/16)

d. Aluminum wiring (06/30/16)

If any of the buildings at the Property contain aluminum wiring, the Seller must notify Freddie Mac in writing, comply with the requirements of Chapter 62SBL and submit the following documentation:

1. Certification from the appraiser indicating whether the wiring has any adverse impact on the value of the Property
2. A cost estimate from a licensed electrical engineer for any repairs or corrections required by any applicable code
3. Certification of completion for all repairs and corrections to the wiring in the Property required by any applicable code.

e. Reserved (06/30/16)

8SBL.3 Moisture or Mold issues (08/17/23)

a. Moisture Management Plan (08/17/23)

If the physical risk consultant determines that a Moisture Management Plan (MMP) is needed, then the Borrower must maintain an MMP for the Property. The MMP must provide for all of the following requirements:

1. Training the maintenance staff to understand the hazard and respond to all water intrusion events or leaks according to Environmental Protection Agency (EPA) guidelines
2. Providing information to tenants including, but not be limited to

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

- Tenant housekeeping responsibilities (This information must be provided to tenants when they execute a new lease and at lease renewal.)
- Tenant responsibility for notifying management in a timely manner regarding moisture or Mold issues
- Description of any remediation done within a tenant's unit or on a tenant's behalf

3. Identifying the source of and remedying the water intrusion or leak, or remediating the Mold (in accordance with EPA guidelines) and recording the corrective actions taken
4. Documenting and promptly responding to tenant complaints relating to water intrusion, leaks, Mold, musty odors or health impacts and recording actions taken
5. Scheduling and documenting routine inspections of building areas to search for evidence of water intrusion, leaks or Mold (At a minimum, these inspections must take place annually for all common areas and areas with a past history of water intrusion, leaks or Mold and at unit turnover or at a tenant's request for all units.)
6. Keeping all plan documentation at the Property or at the property manager's office and available for the annual assessment inspection by the Servicer

The Moisture Management Plan must indicate that it is for the Property. If requested, a copy of any required Moisture Management Plan must be delivered to Freddie Mac.

For more detailed information on creating a Moisture Management Plan that meets Freddie Mac's requirements, Seller/Servicers should consult the Moisture Management Plan Handbook.

Note:

Freddie Mac has published these guidelines to provide the Borrower with assistance in developing a Moisture Management Plan that is responsive to Freddie Mac's requirements. However, the Borrower is not required to use these tools. The tools provided by Freddie Mac are not documents that are ready to be implemented without the Borrower's input regarding the particular practices and conditions at the Property. In addition, Freddie Mac's tools for the preparation of the Moisture Management Plan are not a guaranty that the Property will not experience any issue with moisture or Mold in the future, and use of these tools does not relieve the Borrower of any liability it may have with regard to such issues.

b. Increased Scrutiny for Moisture or Mold Issues (02/28/18)

Freddie Mac will require the Servicer to inspect a Property in accordance with the Increased Scrutiny for Moisture or Mold Issues requirements for any Property:

- With a history of moisture or Mold issues identified at underwriting, or
- With moisture or Mold issues identified during the term of the SBL Mortgage, or

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

- Without a Moisture Management Plan (MMP) (if the physical risk consultant recommended a plan but Freddie Mac waived the MMP)

If a Property is subject to Increased Scrutiny for Moisture or Mold Issues, during the annual assessment inspection, the Servicer must:

1. Conduct a specific evaluation of the integrity of the building envelope; roof and drainage; heating, ventilation and air conditioning (HVAC) system; plumbing system and associated spaces (for example, mechanical closets) for each building on the Property and document that evaluation

2. Inspect a minimum of 10 percent of the units, including those units that the Servicer deems most likely to be exposed to moisture conditions

3. Conduct a specific evaluation of the condition of finishes in inspected dwelling units and in all common areas and document that evaluation

4. Inspect any areas where the Borrower or property manager has detected a musty odor or observed Mold, as well as all spaces typically associated with moisture issues, water intrusion or leaks, such as basements and unheated storage areas

5. Evaluate all completed repairs to correct water intrusion or leak issues since the last assessment and document that evaluation

6. Evaluate and comment on all areas where Mold has been removed since the last assessment and document that evaluation

c. Special Moisture or Mold Issues Inspection (06/30/16)

Freddie Mac, in its sole discretion, may require a Special Moisture or Mold Issues Inspection for a Property if:

- A moisture or Mold issue has been identified at underwriting

- Mold is identified after a water intrusion event or leak during the term of the SBL Mortgage

Freddie Mac will have the right to continue to require a Special Moisture or Mold Issues Inspection until the moisture or Mold issue has been resolved to its satisfaction. After the Borrower has resolved the moisture or Mold issue to Freddie Mac's satisfaction, Freddie Mac will require a subsequent Special Moisture or Mold Issues Inspection no more frequently than once every three years.

The Borrower will bear the cost of all Special Moisture or Mold Issues Inspections in accordance with the Loan Documents.

A Special Moisture or Mold Issues Inspection must meet the following requirements:

1. A third-party property condition consultant, meeting the requirements of Section 62.8, must conduct the Special Moisture or Mold Issues Inspection.

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

2. The third-party property condition consultant who performs the Special Moisture or Mold Issues Inspection must

   a. Conduct a visual and olfactory inspection for evidence of current or past moisture or Mold issues

   b. Look for evidence of moisture or Mold issues in all areas customarily inspected in accordance with Section 62SBL.5(d)

   c. Make inquiries of the Borrower or property manager regarding past and current water intrusion or potentially damaging leaks; any known Mold problems; or any tenant complaints regarding health problems, musty odors, water intrusion or potentially damaging leaks

   d. Examine any areas where water intrusion or leaks have been reported

   e. Examine all building components or areas most typically associated with water intrusion or potentially damaging leaks

   f. Identify any defective building conditions that would likely lead to future water intrusion or potentially damaging leaks

   g. Provide Freddie Mac with a comprehensive report on the inspection.

8SBL.4 Occupancy (09/30/20)

For an SBL Mortgage to be eligible for purchase by Freddie Mac, the Property securing it must have a minimum stabilized average physical occupancy of 90 percent for the trailing three-month period prior to underwriting and for the month immediately preceding submission of the full underwriting package to Freddie Mac.

8SBL.5 Zoning and building code conformity; certificates of occupancy (09/26/19)

a. For an SBL Mortgage to be eligible for purchase by Freddie Mac, the Property securing it must conform to all applicable zoning, subdivision and use laws, ordinances or codes and local building and housing codes. A zoning report is not required for an SBL Mortgage.

b. The Seller must confirm that all certificates of occupancy required for the use, operation and occupancy of the Property for its presently-contemplated use have been issued and are in effect or, if certificates of occupancy are not available, that the absence of any certificate of occupancy is not a violation of local laws, ordinance, or codes, nor will it give rise to any enforcement action affecting the Property.

c. If the Seller cannot confirm the requirements regarding certificates of occupancy specified in Section 8SBL.5, then Freddie Mac may purchase the SBL Mortgage only if all the following requirements are satisfied with respect to each unit for which such confirmation cannot be obtained (each a “Non-Permitted Unit”):

   - The underwritten income from the Property must exclude the gross potential rent (GPR) for any Non-Permitted Unit and the total unit count must not include the Non-Permitted Unit.

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

- The underwritten expenses for the Property (including management fee and Replacement Reserves) must include all expenses attributable to all Non-Permitted Units.

- The Non-Permitted Units must be excluded from any determination of whether minimum occupancy requirements are satisfied.

- The Appraisal must not include any Non-Permitted Unit or any income derived from any Non-Permitted Unit in either the direct cap or final as-is valuation.

- The insurance for the Mortgaged Property must include full coverage for all Non-Permitted Units and may not contain any exclusion based on the lack of a certificate of occupancy for any Non-Permitted Unit.

- The SBL Physical Risk Report must specifically note the condition of each Non-Permitted Unit is compliant with all local laws related to habitability. Generally, such units must have direct ingress/egress, windows in bedrooms and Essential Facilities. Electrical and plumbing must be consistent with the rest of the building. The SBL Physical Risk Report may include Non-Permitted Units in the total unit count but must note that such units lack a certificate of occupancy or equivalent.

- The Borrower and Guarantor will be liable for any loss, damages or costs suffered by the lender as a result of the use of any Non-Permitted Units.

- For each Non-Permitted Unit, the Borrower will be required to diligently proceed with and complete one of the following remedies, as soon as practicable after the origination of the SBL Mortgage, at the Borrower's election:

  (i) Obtain a certificate of occupancy for the Non-Permitted Unit

  (ii) Obtain one of the following, confirming that the absence of a certificate of occupancy will not give rise to any enforcement action affecting the Mortgaged Property:

    - Zoning report

    - Written statement/certification from the applicable governmental authority

    - Opinion of legal counsel

  (iii) Cease to use the Non-Permitted Unit for residential or commercial purposes, as applicable

d. If the Property does not conform to current zoning regulations, including those governing density, building restriction lines, size or parking, Freddie Mac may purchase the SBL Mortgage for the Property if one of the following requirements is met:

- <u>Full Restoration</u> - The Seller must submit documentation that the improvements may be rebuilt to predamage size, density and configuration in the event of partial or full destruction by fire or other casualty ("statement of full restoration"). The statement of full restoration

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

must be satisfactory to Freddie Mac and must be from the zoning or housing authority or other authorized agency representative or official ("zoning authority").

If it is not possible to obtain the statement of full restoration from the zoning authority, Freddie Mac may accept a copy of legislation or a variance demonstrating that the Property may be rebuilt as is in the event of a partial or full casualty loss. Any statement of full restoration or copy of legislation or variance must be accompanied by an evaluation by the Seller, and if a copy of legislation or a variance is submitted, Freddie Mac may request that Single Counsel submit a written evaluation of the legislation or variance and its applicability to the Property.

- Limited or Conditional Restoration - If the Seller cannot provide a statement of full restoration or satisfactory variance or legislation that the Property can be completely restored, in order for Freddie Mac to consider the SBL Mortgage for purchase, the Seller must submit a damage restoration statement from the zoning authority that does each of the following:

  a) States the requirements of the current zoning classification (i.e., the number of units that could be rebuilt or the set back that would be required under current zoning).

  b) Specifies the percentage of damage to the Property's market, replacement, or appraised value that could occur (the "damage threshold level") that would still allow the owner to rebuild the Property to predamage size and density without having to comply with current zoning requirements. The percentage of destruction must not be based on the Property's taxation assessed value.

8SBL.6 Independent Property (09/26/19)

a. General Requirements (06/30/16)

Except as set forth in this Section 8SBL.6, Freddie Mac requires that a Property be an "Independent Property". An Independent Property is a Property that satisfies all of the following conditions:

1. Has direct access to a publicly dedicated and maintained street for all improvements and parking spaces without reliance on any easements

2. Contains the Essential Facilities needed to operate independently

3. Contains Recreational Facilities needed to operate independently

4. Is located on contiguous parcels of land; parcels separated only by a public right of way will be considered contiguous

5. Is financially viable and independent of all other properties, including other properties in the same phased development, if applicable

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

b. Essential Facilities and Recreational Facilities (06/30/16)

"Essential Facilities" include the following, if applicable:

- Leasing offices
- Model units
- Parking required for the Property to comply with zoning laws and regulations
- Utility and maintenance buildings
- Heating and cooling systems
- Privately owned/operated utilities
- Pedestrian ingress/egress points (including connecting bridges, tunnels, or walkways)

"Recreational Facilities" include the following, if applicable:

- Swimming pools
- Tennis, basketball and/or other hard-surface courts
- Playgrounds
- Indoor recreation centers, club houses, and gym facilities
- Other recreational facilities
- Laundry facilities, if the units are not equipped with a washer/dryer
- View easements
- Air rights

c. Purchase of an SBL Mortgage secured by a Property that is not an Independent Property (09/26/19)

Freddie Mac will consider purchasing an SBL Mortgage secured by a Property that is not an Independent Property provided all the following requirements are satisfied:

1. Seller's underwriting package must identify that the Property is not an Independent Property and describe what features/circumstances prevent the Property from being an Independent Property and analyze the impact of these features/circumstances on the Property and the SBL Mortgage.

    - For a Property with access via an easement, Seller must describe the access easement and the nature/type of property that Borrower must cross to reach the public right of way

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

- For a Property that relies on Essential Facilities and Recreational Facilities located on another property, Seller must list which Essential or Recreational Facilities are located on the Property and which are located off-site, and must describe the off-site Essential or Recreational Facilities and their owner(s). Seller must also analyze the feasibility and practicality of Borrower creating or constructing the identified off-site Essential Facilities or Recreational Facilities on the Property. This analysis must include financial considerations as well as zoning issues and the availability of land.

2. Seller's underwriting package must include either (i) confirmation from Single Counsel that any easement, Shared Use Agreement for Essential or Recreational Facilities, and/or any scattered site Property comply or will comply as of the Origination Date with the requirements set forth in this Section 8SBL.6, or (ii) a detailed analysis of which requirements will not be satisfied, and Single Counsel's recommendation as to whether and why Freddie Mac should accept the non-compliant easement, Shared Use Agreement, and/or scattered site Property.

   Freddie Mac's approval of any non-compliant provisions in the easement and/or Shared Use Agreement does not discharge or limit the Seller's liability for breach of any warranties made under the Purchase and Servicing Documents. See Section 29SBL.2 for more information on title exceptions.

3. Freddie Mac will require that the Borrower be personally liable for any loss or damages incurred by Freddie Mac because the Property is not an Independent Property and may require one or more of the following as a condition to Freddie Mac's agreeing to purchase the SBL Mortgage:

   - If Freddie Mac determines that it is feasible to create or construct Essential Facilities, Recreational Facilities or direct primary access, Freddie Mac may require the Borrower to make the necessary modifications so that the Property meets all of the requirements for an Independent Property

   - Freddie Mac may require the Borrower to establish a Reserve of the funds necessary to make the required modifications at a later date determined by Freddie Mac

4. If the Property is accessed via an easement, all of the requirements of Section 8SBL.6(d) are satisfied.

5. If the Property does not contain the Essential Facilities needed to operate independently, all of the requirements of Section 8SBL.6(e) are satisfied.

6. If the Property does not contain the Recreational Facilities needed to operate independently, all of the requirements of Section 8SBL.6(e) are satisfied.

7. If the Property is located on non-contiguous parcels of land (Linked Buildings) the transaction must be prescreened by Freddie Mac.

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

d. Indirect access (access via easement) (06/30/16)

Freddie Mac will consider purchasing an SBL Mortgage secured by a Property with primary access to a public right of way via an easement, provided all of the following requirements are satisfied:

1. The easement must provide safe ingress/egress to a publicly dedicated and maintained street.

2. The Property must have good visibility from the public street it accesses via the easement.

3. The easement must be wide enough to provide satisfactory fire/police/utility access and to handle all current and foreseeable types of traffic.

4. If the easement represents a shared access with, or through, another property, the Property must be able to operate satisfactorily without adverse effects (now or in the future) from the other properties that share such access.

5. Signage (if applicable) must be of sufficient size so that it is clearly visible from the public street.

6. The easement must be perpetual.

7. Each party's rights and responsibilities under the easement (including expenses) and remedies in the event of a breach by any other party must be generally acceptable to a prudent lender.

8. The easement may not allow for loss of use in the event of a breach. However, the easement may permit the placement of a lien which is subordinate to the SBL Mortgage for unpaid maintenance costs for the easement.

9. The easement must be recorded in the applicable land records for the jurisdiction prior to the Freddie Mac Funding Date and must be included in the insured legal description of the Property.

10. Seller must include in the underwriting package either a copy of the existing survey, tax map, or satellite images of the Property detailing the location of the easement as well as photographs taken from the public street showing the view of the Property from the public street and the location of the easement as well as the signage for the Property.

11. Seller must provide the appraiser with all information regarding the easement.

12. Seller must notify Freddie Mac and the appraiser if it learns of any circumstances that might limit access to the Property.

e. Shared Essential Facilities and Recreational Facilities; Shared Use Agreement (06/29/17)

Freddie Mac will consider purchasing an SBL Mortgage on a Property that utilizes Essential Facilities or Recreational Facilities that are not located on the Property and under the exclusive control of the Borrower, provided all of the following requirements are satisfied:

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

1. There is a written Shared Use Agreement in place between the Borrower and the party controlling the applicable Essential Facilities or Recreational Facilities.

2. The Shared Use Agreement must be recorded in the applicable land records for the jurisdiction prior to the Freddie Mac Funding Date and must be included in the insured legal description of the Property.

3. The Shared Use Agreement must contain a stipulation that access to and use and enjoyment of the Essential Facilities and/or Recreational Facilities are perpetual and that such rights will inure to the benefit of all future owners of the Property.

4. Each party's responsibilities and share of expenses under the Shared Use Agreement must be stipulated and generally acceptable to a prudent lender.

5. Each party's remedies in the event of a breach by any other party must be generally acceptable to a prudent lender. The Shared Use Agreement may not allow for loss of use in the event of a breach. However, the Shared Use Agreement may permit the placement of a lien which is subordinate to the SBL Mortgage for unpaid maintenance costs.

6. The Seller/Servicer must provide the appraiser with all information regarding the Shared Use Agreement.

7. The Seller/Servicer must notify Freddie Mac immediately if the Seller/Servicer learns of any circumstances that might limit the access to or the use or enjoyment of the Essential Facilities and/or Recreational Facilities.

f. Reserved (09/26/19)

8SBL.7 Tax parcels, taxes and utilities (06/30/16)

a. Tax parcels (06/30/16)

The Property must be identified as a single tax parcel or, if identified as multiple tax parcels, the Property must constitute the entirety of those tax parcels. Any tax parcel or parcels in which the Property is located may not include property that is not subject to the SBL Mortgage sold to Freddie Mac.

b. Taxes and utilities (06/30/16)

All taxes (including personal property taxes), other than ad valorem real estate taxes not yet due or payable, and all utility fees and charges must be current.

8SBL.8 Owner-Occupied units (06/29/17)

If one or more units at a Property is occupied by either a Borrower, a Borrower Principal (including a Guarantor) or a family member of a Borrower or Borrower Principal ("Owner-Occupied Unit"), then one of the following two conditions must be satisfied:

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

1. The Property satisfies the minimum DCR requirement for the Mortgage after both (i) excluding the gross potential rent (GPR) of the Owner-Occupied Unit(s) from the underwritten income and (ii) including all expenses attributable to the Owner-Occupied Unit(s).

   For each commercial lease, the Seller must submit a Commercial Lease Analysis and Estoppel – SBL in the full underwriting package (see Chapter 55SBL for additional details regarding this requirement). If income from any one commercial lease represents five percent or more of gross potential rent (GPR) for the Property, the Commercial Lease Analysis and Estoppel – SBL must be signed by the commercial tenant.

2. The SBL Mortgage meets all the following characteristics:

   (i) The Borrower is an entity

   (ii) The Borrower provides evidence of trailing one-month collections for each Owner-Occupied Unit

   (iii) The Property has a minimum DCR of 1.00x after both (1) excluding the GPR of the Owner-Occupied Units and (2) including all expenses attributable to the Owner-Occupied Units

   (iv) The Property satisfies the minimum DCR requirement for the Mortgage after including the GPR and expenses attributable to the Owner-Occupied Units

For the purposes of this Section 8SBL.8, “family member” means any of the following:

- Spouse
- Child (including step-children)
- Parent (including step-parents and in-laws)
- Grandparent (including step-grandparents and in-laws)
- Sibling (including step-siblings and in-laws)
- Aunt or uncle (including step-aunt, step-uncle and in-laws)
- Niece or nephew (including step-niece, step-nephew and in-laws)

8SBL.9 Reserved (06/30/16)

8SBL.10 No condemnation or other adverse circumstances—Property (06/30/16)

No proceeding may be pending for condemnation of all or any part of the Property. There must be no circumstances or conditions of which the Seller is aware involving the Property that adversely affect the value or marketability of the SBL Mortgage.

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

8SBL.11 Nonresidential leases (06/29/17)

a. General (06/30/16)

For the purposes of this section, the term "commercial lease" refers to any non-residential lease under which the Borrower is the lessor (excluding ground leases, which are addressed separately in this Guide), including telecommunication agreements (as defined in Section 29SBL.2), leases for retail space, office space, laundry facilities, cellular communication equipment, billboards, and petroleum products/minerals.

b. Analysis (06/29/17)

If income from any one commercial lease represents five percent or more of the gross potential rent of the Property, the Seller must submit a Commercial Lease Analysis and Estoppel – SBL, signed by the tenant, in the full underwriting package for each such lease. Freddie Mac, in its sole discretion, may require a Commercial Lease Analysis and Estoppel – SBL in other circumstances as it deems appropriate.

See Section 55SBL.2 regarding commercial lease documentation required in the full underwriting package.

c. Tenant improvements and leasing commissions (06/30/16)

Freddie Mac will deduct tenant improvements and leasing commissions from Net Operating Income when underwriting Properties where commercial gross potential rent is five percent or more of the Property's total gross potential rent. Freddie Mac will require escrow or other acceptable credit enhancement if there will be any outstanding tenant improvements or leasing commission obligations at Mortgage origination. Freddie Mac may require a separate escrow to address the costs of any potential future tenant improvements or leasing commissions.

d. Reserved (06/30/16)

e. Subordination, nondisturbance and attornment (SNDA) (06/30/16)

In its sole discretion, Freddie Mac may enter into a subordination, nondisturbance and attornment agreement with a commercial tenant that is not an affiliate of the Borrower and/or a Borrower Principal.

f. Subordination of a commercial lease with Affiliate (06/30/16)

A commercial lease between the Borrower and any Affiliate of the Borrower or any Borrower Principal (including any Guarantor) must be subordinate to the lien of the SBL Mortgage unless the lease contains a provision for termination by the owner of the Property with or without cause on 30 days' notice and without payment of a fee or penalty. Such subordination may be contained in the provisions of the lease itself or may be contained in a separate subordination agreement. The subordination agreement must be recorded if the lease is recorded. Freddie Mac will not agree to a nondisturbance agreement for a lease that is with an Affiliate of the Borrower or any Borrower Principal (including any Guarantor).

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

8SBL.12 Subordinate Financing (06/30/16)

Freddie Mac will only permit SBL Subordinate Financing as described in Section 43.30.

8SBL.13 General property management requirements (04/13/23)

At all times, the Borrower either must manage the Property or provide for professional management of the Property by a property management company meeting the requirements of the Loan Documents.

A third-party management company will be required if, at the time of Seller Application, there is no individual with Control over the Borrower who resides less than 100 miles from the Property.

However, as an exception to the above, a third-party management company will not be required if at least one Key Borrower Principal with Control of the Borrower meets the requirements of Section 9SBL.2(c)2. No property management company will be acceptable if the property management company appears on the Freddie Mac Exclusionary List or the Multifamily Restricted Vendor List, each of which is available on FreddieMac.com.

See Section 2.18 regarding the Freddie Mac Exclusionary List.

The Servicer must not obtain an Assignment of Management Agreement and Subordination of Management Fees for loans purchased under the Freddie Mac Small Balance Loan Program.

As part of its underwriting process, and as part of its review of a proposed replacement property management company (if required), Freddie Mac will evaluate the appropriateness of the management fee charged by the property management company.

8SBL.14 SBL Mortgages ineligible for purchase (12/15/22)

An SBL Mortgage is ineligible for sale to Freddie Mac if any of the following circumstances apply:

- The Property receives any of the following:
  - Local rent subsidies for greater than 10 percent of the units
  - Local rent subsidies for 10 percent or fewer of the units, but the subsidy is contingent on the owner's initial or ongoing certification of each tenant's eligibility
  - Federal rent subsidies (for example, project-based Section 8 HAP program or a similar Federal program)
- The Property is encumbered by any of the following:
  - A regulatory agreement that imposes income and/or rent restrictions if there are funds related to the regulatory agreement that have not yet been disbursed to the Borrower
  - A regulatory agreement that encumbers any property other than the Property

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

- A Low-Income Housing Tax Credit (LIHTC) land use restriction agreement (LURA) in compliance years 1-12
- A Private Transfer Fee Covenant that was created on or after February 8, 2011
- A HUD foreclosure deed restriction or similar restriction

- The Property benefits from any of the following:
  - Tax exempt bond interest reduction payments (IRPs)
  - Historic Tax Credits (HTCs) that require a master lease structure
- The Property has any of the following tenant characteristics:
  - Seniors housing with resident services
  - Greater than 50 percent concentration of student tenants (whether graduate or undergraduate)
  - Greater than 50 percent concentration of military tenants
- The Property has a Scenario Expected Loss-475 (SEL-475) greater than 40 percent, as determined by a Seismic Risk Assessment (SRA), and the affected buildings have not undergone a seismic retrofit (see Chapter 64SBL for further information on seismic risk assessments)
- The Property is in an area that has been identified by FEMA as a Special Flood Hazard Area (SFHA) and the community where the Property is located does not participate in the National Flood Insurance Program (NFIP), regardless of whether private flood insurance is available

8SBL.15 Property inspections and lease audits (04/18/24)

The Seller must inspect the Property, audit leases and submit the required Property Inspection and Lease Audit form.

An inspector employed by the Seller who is familiar with evaluating multifamily asset quality must review the age, condition and quality of all major asset components. None of the following individuals may perform the inspection:

- A third-party contractor engaged by the Seller
- Any employee of the Seller responsible (individually or as part of a team) for originating the Mortgage
- Any employee of the Seller directly benefitting financially or otherwise from the origination of the Mortgage

At least two Business Days prior to the scheduled site inspection, the Seller must deliver a rent roll dated within seven Business Days to Freddie Mac.

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

a. Reserved (10/12/17)

b. Complete property inspection and lease audit (04/18/24)

At full underwriting, the Seller must conduct a complete property inspection including, but not limited to, the following:

1. The unit inspection must include the following:

   - A minimum number of residential units as follows:

     - The greater of 10 percent of the total number of units at the Property or five units. Inspected units should include a representative sample of vacant units, occupied units, unit types and floor levels, including top floor and bottom floor units. If inspecting the greater of 10 percent of the total number of units or five units results in an insufficient number of inspected units to meet lease audit requirements, then additional units must be inspected to meet those requirements.

   - All Down Units

   - All commercial/non-residential units

   - A representative sample of units with corporate leases

2. Prior to the date of the inspection, unless delegated to the Seller, Freddie Mac must select units for the inspection and the Seller must instruct Borrowers to provide notices to the selected units:

   - For Properties located in Very Small Markets, the Borrowers must provide notification to all tenants that a site inspection is pending.

   - For Properties in all other markets (Top, Standard, or Small Markets), the Borrower must provide advance site inspection notifications to a minimum of twice the required number of units for inspection. If a Property has ten or fewer units, the Borrower must provide notification to all tenants. The number of selected units for which the Borrower must provide notification to tenants must be sufficient for the inspected units to meet lease audit requirements. If the selected units are not sufficient, the Seller must select additional units for which the Borrower must provide notification to tenants.

     The inspector may require access to more or different units than those to which the Borrower provided notifications. If the Borrower cannot provide the inspector access to those units, the inspection must be rescheduled and those units inspected before the inspection is deemed complete.

3. On the day of the inspection, an appropriate sample of units must be identified to inspect from the selected units, ensuring that the minimum number of units are inspected and that the inspected units are sufficient to meet lease audit requirements. If Freddie Mac is on-site and participating in the inspection, Freddie Mac will select the units to be inspected. If

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

Freddie Mac is not present, the Seller will select units to be inspected. Neither the Borrower nor the property manager may select or recommend units to be inspected.

When a property inspection is delegated to the Seller, and the Borrower or the property manager cannot gain access to units, the Seller may substitute originally noticed units for the inaccessible units in order to fulfill the unit inspection and lease-audit requirements. The Seller must identify the inaccessible units and the substituted units in the inspection form.

4. The Seller must interview the property manager, if applicable, to discuss unit and property amenities, concessions, tenant mix, renovations, capital expenditures, marketing efforts, turnover, current competition, and any new supply that will compete with the Property. If unit renovations are reported, the Seller should request a list of such units.

5. The Seller must inspect each building, including exteriors and all common spaces to include the following:

   - Roof access should be gained if not clearly visible from the ground (flat roofs).
   - Inspect a representative sample of ongoing or recently completed unit renovations, if applicable
   - Verify reported completed or in process capital improvements
     - Verification may also be supplemented through review of the Appraisal, Physical Risk Report, or SBL Cash Out Analysis following submission of the full underwriting package
     - If none of the above are sufficient to verify completion of the capital improvements or unit renovations, the UW must require proof of completed capital improvements or unit renovations (such as invoices, etc.)
   - Inspect amenities available to tenants at the Property
   - Walk the Property and look for deferred maintenance and any easily recognizable need for environmental remediation
   - Inspect the building's heating, ventilation and air conditioning (HVAC) and other systems

6. The Seller must include in the property inspection documentation the names of all parties participating in the property inspection and the management interview, including the company each individual represents.

7. The Seller must conduct a market analysis to include the following:

   - Drive by identified rental comparables

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

- Determine the Property's compatibility with the neighborhood and assess the Property's competitiveness in its submarket

- Take photographs of rental comparables when unique issues or material concerns exist

- If requested by Freddie Mac, inspect any other multifamily properties that are owned by the Borrower and/or Key Borrower Principal and are located in the Property's submarket

8. The Seller must document the complete property inspection and lease audit. At full underwriting, the Seller must submit the property inspection and lease audit documentation set forth below:

   - Photographs representative of the Property. If Freddie Mac delegates the property inspection to the Seller, at least two photographs of each unit inspected must be provided.

   - Current rent roll from the property manager that was used to prepare the property inspection including the full tenant names, current lease start and end dates and unit occupancy status

   - A sample or unexecuted residential lease or an executed lease with any personal or private information redacted

   - Completed Property Inspection and Lease Audit form to reflect a lease audit of:

     - If the Property has 15 or fewer total units, 100 percent of occupied units capped at 10 units, or

     - If the Property has more than 15 total units, the greater of 25 percent of all units or 10 units, up to a maximum of 30 units, unless otherwise required by Freddie Mac or the Seller

       Additionally, the audited leases: (i) must include all occupied units inspected and (ii) should be selected by the person conducting the inspection. Also, if lease files are maintained on-site, the lease audit must be conducted at the time of the site inspection. The lease audit must also include representative samples of:

       - Leases from any inspected corporate units

       - Leases signed within the last 60 days

     - Effective for transactions taken under application on or after April 18, 2024, validation of leases must also be validated against documentation reflecting actual rental payments received by the respective tenant, such as a tenant ledger, general ledger, copies of checks, or similar documentation. If discrepancies are identified, the applicable comments field must be used to provide an explanation, such as when a portion of the rental payment is in the form of a governmental subsidy (e.g., Section 8 or Medicaid) or when the ledger reflects additional

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

payments (e.g., late fees or other one-time charges).

The Seller/Servicer must retain electronic or hard copy records evidencing Seller's compliance with the verification requirements in this section.

- An indication of the number of units that were actually notified of the potential property inspection, as required by Section 8SBL.15(b)
- Documentation of complete property inspection in accordance with this section
- If Freddie Mac has delegated the property inspection to the Seller, acknowledgement that the inspection is a delegated inspection

9. If Freddie Mac delegates any inspection requirement to the Seller, the Seller may not further delegate the inspection requirement. Delegation to the Seller must be approved by Freddie Mac and is permitted on an exception basis only.

c. Timing of property inspections and lease audits (02/18/21)

The inspection and lease audit requirements of Section 8SBL.15(b) must have been completed within 120 days of Freddie Mac's receipt of the full underwriting package.

If the Seller inspection and lease audit are not completed within 120 days of Freddie Mac's receipt of the underwriting package, a new inspection and lease audit must be performed; no recertification will be allowed.

8SBL.16 Reserved (03/03/17)

8SBL.17 SBL Physical Risk Report (09/30/20)

This section sets forth the requirements, duties and responsibilities of the Seller/Servicer once the SBL Physical Risk Report has been completed by the physical risk consultant. See Chapter 62SBL for the following:

- The physical risk consultant's requirements for evaluating the physical condition of the Property and completing Form 1104, SBL Physical Risk Report
- The Seller's requirements for retaining a physical risk consultant and reviewing Form 1104

Freddie Mac requires the Seller/Servicer to submit an SBL Physical Risk Report meeting the requirements of Chapter 62SBL before Freddie Mac will issue a Letter of Commitment to purchase an SBL Mortgage.

Once the Seller has received and reviewed Form 1104, the Seller must disclose to Freddie Mac any Critical Repairs, as defined in Section 62SBL.3(b), including actual or suspected structural, mechanical, electrical or other material physical deficiencies or Mold at the Property and inform the *Small Balance Loan Team* of unusual or questionable conditions. In addition, the Seller must:

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

- Verify that all Critical Repairs have been addressed and provide evidence of completion to Freddie Mac prior to Freddie Mac's issuance of the Letter of Commitment

- Prepare Loan Documents which include funded Replacement Reserves, where applicable, for certain Priority Repairs and PR-90 repairs, as defined in Section 62SBL.3(b)

- Provide a copy of the completed SBL Physical Risk Report to the Borrower so that the Borrower is aware of the Priority Repairs (including PR-90 Repairs), as defined in Section 62SBL.3(b), that must be completed by the Borrower per the Loan Document requirements

If any of the following conditions exist at the Property:

- The estimated cost to complete all Priority Repairs (including PR-90 Repairs) identified in the SBL Physical Risk Report meets or exceeds the greater of $25,000 or two percent of the unpaid principal balance, or

- The Property receives an "Overall Property Condition Rating/Capital Needs Over the Loan Term" rating of "Below Average" or lower in the SBL Physical Risk Report, or "Poor" in the Seller and/or Freddie Mac inspection

Then for all identified Priority Repairs (including PR-90 Repairs), Freddie Mac will require a Reserve and the Loan Agreement must require completion within 12 months of SBL Mortgage closing.

8SBL.18 Condominiums (06/29/18)

a. Condominiums (10/12/17)

Freddie Mac will consider purchasing an SBL Mortgage that is secured by a security interest in Property that is subject to a condominium regime ("Condominium" or "Condo") only if it is a 100 percent Borrower-owned Condo. The following additional requirements must be satisfied:

- The Appraisal must indicate that the Property is a 100 percent Borrower-owned Condo.

- The Letter of Commitment may require certain modifications to the Loan Agreement and the Security Instrument.

b. Reserved (06/29/18)

c. Reserved (06/30/16)

d. Reserved (06/30/16)

e. Reserved (03/03/17)

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

8SBL.19 Tax abatements (04/14/22)

a. Tax abatement definition and overview (06/30/16)

Properties that have been developed or redeveloped under a State or local economic development program often qualify for a reduction in their property taxes. As used in this Guide, the term tax abatement covers the following:

- A reduction of or exemption from taxes granted by a governmental body (typically local government), and
- A payment made to compensate a local government for some or all of the tax revenue that it loses because of the nature of the ownership or use of a property (PILOT or payment in lieu of taxes)

b. Tax abatement eligibility (04/14/22)

1. Program eligibility

The Seller/Servicer must verify that the governing State or local authority has granted a tax abatement to the Property or the Borrower, as applicable, under an eligible program. The Seller/Servicer must:

- Obtain and review the documents required for program eligibility listed in the Tax Abatement/Exemption Analysis – SBL, and
- Include in the applicable underwriting package the Tax Abatement/Exemption Analysis – SBL and the applicable documentation required in the Tax Abatement/Exemption Analysis – SBL

2. Statutory approval

The applicable statute for the tax abatement must be in force at the time that the Seller/Servicer submits the full underwriting package to Freddie Mac.

3. Continuation of tax abatement

The Seller/Servicer must determine whether the tax abatement will continue as stated during the term of the SBL Mortgage. The Seller/Servicer must review the documentation for the tax abatement in order to understand:

- The nature of the tax abatement, that is, the length of the abatement and phase-out, if any
- The requirements of the governing authority
- What happens to the tax abatement if the Property is transferred by sale or through foreclosure

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

- Whether the tax abatement is freely transferable upon sale, foreclosure or similar disposition of the Property, or dependent on the non-profit status of the Borrower and/or Borrower Principal or other non-profit entity in the ownership structure, or other criteria

If there is a concern that the tax abatement will not be maintained as underwritten or may be forfeited, Freddie Mac will either underwrite the SBL Mortgage using full taxes or reduce the SBL Mortgage by an amount that it determines to be commensurate with the risk.

c. Documentation required for underwriting package and tax abatement approval (04/14/22)

1. For all tax abatements, the Seller/Servicer must include in the applicable underwriting package the evidence of tax abatement documentation listed in Section 55SBL.2.

   The form of tax abatement documentation may vary from one taxing authority or governing body to another. The following types of documentation are listed in order of preference:

   - Letter from the taxing authority or the governing body granting or confirming the abatement
   - Copy of the Borrower's current tax statement showing the amount of taxes assessed

   If the tax abatement is subject to periodic renewal and/or reporting, the Seller/Servicer must obtain and include in the underwriting package the evidence that such renewal and/or reporting is current

2. Additional requirements for tax abatements that must be approved by Freddie Mac

   In addition to the documentation described above, the Seller/Servicer must:

   - Prepare the Tax Abatement/Exemption Analysis – SBL ,
   - Include the applicable documentation required in the Tax Abatement/Exemption Analysis – SBL, and
   - Respond to any issues raised by the Multifamily Attorney

d. Collateral valuation for tax abatement (06/30/16)

Freddie Mac has a preferred valuation methodology for an Appraisal of a Property with a tax abatement. See Section 60.23 for instructions for an Appraisal for a Property with a tax abatement.

e. Refinance test and DCR calculation for Properties with tax abatements (06/30/16)

1. Refinance test for all SBL Mortgages underwritten with tax abatements

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).

Freddie Mac performs a refinance test as follows:

- The refinance period will be equal to the 10 years following the maturity date of the SBL Mortgage.
- The SBL Mortgage must meet the DCR and LTV requirements of the standard refinance test.

2. DCR calculation for all SBL Mortgages underwritten with tax abatements

   Freddie Mac analyzes a Property with a tax abatement under one of the following two scenarios:

   - If any of the following conditions exist, Freddie Mac considers the tax abatement to be "infinite" and abated taxes can be utilized to derive the NOI and perform the refinance test:

     a. The phase-in period, if any, begins at least 10 years after the SBL Mortgage maturity date

     b. The abatement runs at least 20 years after the Origination Date.

     c. The abatement runs for the full term of a fully amortizing SBL Mortgage.

   For all other SBL Mortgages, the underwritten NOI must include the tax expense based on actual in-place taxes, whether fully or partially abated. Freddie Mac performs a cash flow analysis to show the effect on NOI of any decrease in the tax abatement for the term of the SBL Mortgage plus 10 years.

The current official electronic version of the Guide is published by AllRegs® and accessible via either mf.freddiemac.com (for free) or the AllRegs web site of ICE Mortgage Technology (with a paid subscription).