



Most Common Misses on Loan Assumption Submissions to Freddie Mac

(How to Achieve Stronger Scores on Loan Assumptions and Obtain Faster Decisions for our Borrowers)

Early Indication (“EI”) Review

- **Not required** for (1) Small Balance Loans, (2) Pre-Approved Transfers or (3) LP Transfers (click on Early Indication Tab in CRT to hide this section). **Required** for any Transfer (1) of ownership of the Property (including Assumptions) (2) involving a change of control (including a merger resulting in a change of control) or (3) of a General Partner or manager interest.
- Do not hit “Proceed” in CRT until all seven required documents are uploaded in DMS.
- Organizational Chart must identify proposed Guarantor(s) together with other required information.
- Servicer must review all EI docs to ensure minimum NW & LQ meet requirements prior to submission.
- Label seven EI documents in DMS as outlined in Early Indication FAQs or the Guide Section 41.4(a).
- A video of the EI process is available on Freddie Mac.com, Multifamily Learning Center - CRT - Managing Requests for Early Indication

New Sponsorship Analysis

- Provide organizational documents of the proposed New Borrower and ensure they conform to the organizational chart, PLIM and Form 1115.
- Servicers must certify that no Borrower/Principals are listed on the SDN/OFAC list (a screen print of the OFAC search alone does not suffice). The certification, using the language in the Guide, may be stated in the Request form.
- Verifications of liquidity must be in the name of the Individual Guarantors and Entity Guarantors.
- Specify what is driving the closing date, which is particularly helpful on rush assumptions.
- Draw conclusions about new sponsorship instead of just making observations.
- Minimum Liquidity of proposed New Guarantor must be the greater of:
 - 100% of the annual debt service (amortizing DS for PIO loan; IO DS for IO loan).
 - 10% of the total loan amount.
 - For Supplemental loans the required Liquidity is based on the aggregate senior loan and proposed/existing supplemental.
- Minimum Net Worth of proposed New Guarantor must be the greater of:
 - \$5 million if loan amount is less than or equal to \$15 million
 - \$10 million if loan amount is greater than \$15 million but less than \$30 million.
 - \$15 million if loan amount is equal to or greater than \$30 million and up to \$50 million.
 - 30% of the total loan amount if loan amount is greater than \$50 million.
 - For Supplemental loans the required minimum Net Worth is based on the aggregate senior loan and the proposed/existing Supplemental loan.
- Entity Guarantor in the absence of a fully compliant Natural Person Guarantor:
 - Minimum liquidity and net worth are **double** when the financial covenants or Material Adverse Change provisions are not included in the Entity Guaranty.
 - If the Guarantor is an Investment Fund and it does not meet the minimum Net Worth above, the Fund Guarantor will be considered compliant if the Fund’s outstanding

commitments, net of negative net worth, are equal to or greater than 2 times the required Minimum Net Worth for the loan amount. If the Fund Guarantor does not meet the minimum liquidity above, the Fund Guarantor will be considered compliant by including the greater of unfunded commitments or unused capacity under lines of credit, so long as the line of credit is collateralized by the unfunded commitments.

- For Small Balance Loans see Section 9SBL.2(d) of the *Guide* for Guarantors' minimum net worth and liquidity and FICO scores.

Property Performance and Condition

- Provide the backstory on negative or unstable trends in occupancy, DCR and LTV.
- Provide a proforma analysis of property performance based on current rent roll and historical operating performance.
- Property Reports must contain the FM reliance language per section 11.4 of the Guide.

Preliminary Legal Issues Memo

- In the PLIM section of the request form, describe and assess any business impact issues and confirm any conditions indicated in the PLIM as "to be confirmed" by Servicer. Avoid "see attached PLIM" or cutting and pasting portions of the PLIM directly into the request form.
- For Bond Credit Enhancements, Tax Exempt Loans and other TAH loans that have a Regulatory Agreement, Housing Assistance Payment Contract or any other bond docs and/or regulatory agreements in place, the PLIM must review all documents (as applicable) and determine if there are any additional requirements for assumption approval. Upload to DMS all documents discussed in the PLIM.

Administrative and Closing

- The transfer processing fee is due to Freddie Mac when Servicers submit the request
- The transfer/assumption form should identify all loans secured by the property.
- The "Additional Documentation" specified in the FM Approval Letter is due 5 days prior to closing to avoid bumpy rush closings.
- Evidence of insurance in compliance with Chapter 31 of the Guide and Certification 1133 should be done as soon as possible to ensure a smoother closing process.
- Upload all checklist items to DMS, as opposed to just emailing them to the assigned FM analyst.
- Provide comments in CRT to explain roadblocks and unresponsive parties (this also applies to Early Indication requests).

Post-Closing Deliveries

- Servicers must be pro-active in examining the approval letters to ensure all terms and conditions have been satisfied with timely delivery of closing documents to Freddie Mac, including all fees. This should be completed without reminders from Freddie Mac.

Resources Available on Freddie Mac Website (https://mf.freddiemac.com/seller_servicer/asset/)

- Freddie Mac's Approach to Loan Assumption Requests (5/10/2016)
- Early Indication/Assumption FAQs and Webinar (6/22/2016)
- Providing a Better Loan Assumption Process for Borrowers (4/30/2016)
- Chapter 41 of the Guide and closer attention to the Instructions in the Assumption Request form