SBL COVID-19 Debt Service Reserve Escrow Training

April 9, 2020
Freddie Mac will continue to require each loan be supported by full underwriting package that meets all Guide requirements.

To mitigate the economic uncertainties associated with the continued COVID-19 outbreak, SBL will require a Debt Service Reserve (DSR) for all loans.

In cases where either on-site or occupied unit inspections are not practical, Freddie Mac will approve modifications to property inspection requirements:

- In these case, the new Borrower Certification of Property Condition will be required.
- This is submitted as part of the underwriting package.
- It must detail all documentation used to support Optigo lender’s assessment of the property.

Modified property inspections will be considered “Deferred Due Diligence” under the Debt Service Reserve rider and satisfactory follow-up full inspections will become a condition of release for the reserve.
Deposit Amount and Payments

- The amount of the DSR deposit will be sized to 12-months of amortizing debt service
  - This applies whether or not the loan has an I/O period

- The DSR is only available to pay principal (if applicable) and interest
  - The DSR is **not** available to pay monthly deposits for tax, insurance, or replacement reserves
  - Borrowers may request to pre-fund any of these reserves
  - Such pre-funding must be documented in the commitment
Deferred Due Diligence

- Acceptable deferred due diligence will be determined at the time of full underwriting.

- We anticipate the following categories of deferred due diligence:
  - Appraisal (unavailability of zoning information)
  - Inspection
  - Physical Risk Report
  - Other (to be specifically identified at the time of underwriting)

- Note that we don’t expect any of these diligence items to be absent, rather we anticipate certain aspects won’t be completed because, for example, you could not access occupied units.

- If any deferred due diligence is identified, borrower will execute the Borrower Certification of Property Condition.
  - Exhibit A will specify the information Optigo lender relied on as mitigants to understand, for example, the condition of the occupied unit interiors.
Deferred Due Diligence

- What cannot be deferred?
  - Rent Roll
  - Operating Statement
  - Public Records Searches
  - SBL Form 1115

- Please discuss with Freddie Mac immediately if borrower is unable to provide any of the documentation identified above
Recording Offices

- Title insurance companies are beginning to carve out recording office closures from their gap coverage. Freddie Mac requires that the recording gap be insured **without exception**.

- Single Counsel is required to confirm with the title company issuing the title insurance policy for the loan that, effective as of the origination date, the recorder’s office for the property jurisdiction is receiving documents for recording (whether in person, electronically, by mail, overnight delivery, or drop box).

Single Counsel Certification

- We have posted an updated Single Counsel Certification that clarifies the recording and title requirements.
  - This is located on the SBL Loan Documents page.
Accessing Debt Service Reserve Funds to Pay Mortgage

- Borrower must submit a request to the servicer with the required supporting documentation (including a borrower certification of rental collections showing less than breakeven rental collections in the preceding month) to be able to apply funds from the reserve to the payment of principal and interest (P&I).

- If borrower fails to achieve the breakeven rental collections in a given month, they can request a draw to pay the next month’s P&I payment.

- Borrower must provide the servicer the following to request a disbursement:
  - Certified rent roll for the preceding month
  - Borrower certification of actual collections (this is a form attached to the Loan Agreement)
  - If requesting a draw for April P&I, the certified rent roll & collections will be from March

- Requests are due by the 2nd day of the month of the month for which they are requesting disbursement (or the next day, if the 2nd is a non-Business Day).

- Monthly operating statements are not initially required for a request
  - If a borrower requests disbursements for 3 consecutive months, servicer will ask for an operating statement with each future disbursement.
Conditions to Apply the DSR toward Mortgage Payments:

» No Event of Default
» Disbursement is for the full monthly payment amount of principal and interest due
  – If the loan is I/O, the disbursement will be sized to pay only the interest due

REMINDER: Borrower must come out of pocket to pay any required monthly escrow amounts (taxes, insurance, replacement reserves)

NOTE: Loans with funds remaining in a COVID-19 Debt Service Reserve will not be eligible for forbearance
Debt Service Reserve Release

- Lender must receive a release request from the borrower
- All federal, state and local emergency declarations or similar government actions related to COVID-19 have been lifted for at least 90 days
- All deferred due diligence items have been completed to Freddie Mac’s specifications and borrower has remediated all deferred due diligence shortfalls
- Borrower provides evidence satisfactory to Freddie Mac of residential occupancy at a minimum of 80% and collections, on a three-month average and for the last month, that satisfy the *Release Rental Collections* amount specified in the Commitment
- **IMPORTANT**: Lender must receive a satisfactory release request no later than 12 months following the first payment date
▪ **AGAIN – THIS IS VERY IMPORTANT:** Lender must receive a satisfactory release request no later than 12 months following the first payment date

» If a release request is not received or if the release test is not satisfied, the remainder of the DSR will be transferred to the Capital Replacement and Repair Reserve for the balance of the loan term

» It then may be used to reimburse the borrower for the cost of Capital Replacements
Questions?