



Small Balance Loan COVID-19 FAQs
(modified as of 06/24/2020 to include Post Closing FAQs)

Pre-Closing

1. **Will the 12-month Debt Service Reserve (DSR) be required on all loans?** Yes, the DSR will be required on all loans, except in very limited cases, and will be documented in the Loan Agreement rider, which is attached to the Freddie Mac Commitment.
2. **Will deferred due diligence items be required to be completed prior to rate lock?** No. Borrowers and lenders may proceed to rate lock with one or more of the deferred due diligence items outstanding if the list of deferred due diligence items is satisfactory to Freddie Mac, Freddie Mac has received other acceptable interim information regarding the property condition, the borrower has executed the Property Condition Certification (if necessary), and the DSR is in place. Note that one of the release provisions for the DSR is to complete all deferred due diligence items to Freddie Mac's requirements.
3. **Is the DSR calculation based on Interest Only (IO) payments if the loan commences with an IO period?** No, the escrow is based on Principal and Interest (P&I) payments, regardless of any IO period.
4. **Does the 12-month DSR satisfy the 9-month liquidity requirement?** If the property is a cash-out refinance, the sponsor will need to have 9 months of liquidity, without including any cash-out from the subject. If the transaction is an acquisition or cash-in, the sponsor's liquidity will need to cover, at a minimum, the 12-month DSR.
5. **If the recording office is closed, how do lenders show evidence the office has received the request to record?** If a recording office is closed, they must still be offering electronic recording for the loan to move forward.
6. **Are normal underwriting parameters still in effect (90 for 90, T-3 collections, etc.)?** Yes. In addition, programmatic exceptions listed are still available for Prescreen. We will continue to carefully review the economics of the transaction, market, sponsor, and collateral position to ensure we are making prudent lending decisions.
7. **What are the DSR release calculations?** Let's break it down.
 - a. **Breakeven Rental Collections** – This is the monthly amount of residential and commercial income that supports a 1.0x DCR for your loan on an amortizing basis, utilizing underwritten expenses
 - b. **Release Rental Collections** – This is the monthly amount of residential and commercial income that supports the policy-compliant minimum DCR*
 - c. **Release Occupancy** – This is equal to 80%

*Policy-compliant minimum is driven by the base policy minimum including adjustments applicable for market, IO, and Link **without** inclusion of any risk adjustments related to COVID-19.

Post-Closing

8. **How will Freddie Mac be keeping track of outstanding and completed Incomplete Loan Items?** We will follow our normal post-closing process, utilizing Asset Management's Property Reporting System (PRS). When the loan is boarded, each Incomplete Loan Item will be identified as a separate Loan Item Tracking (LIT) in the PRS system.
9. **Do Incomplete Loan Items need to be uploaded to both PRS and DMS?** No. Each Incomplete Loan Item should be uploaded to the PRS system only. We have a process for moving the documents over to DMS once received. It is therefore recommended that updated due diligence be uploaded to the LIT in the PRS system only (not DMS).
10. **If there are multiple Incomplete Loan Items, will there be some sort of "all clear" message when the last item has been reviewed and found to be acceptable?** No. Each Incomplete Loan Item will have a separate LIT in the PRS system and will be cleared one by one. Prior to submitting your request for the release of the DSR, you should confirm that all LITs have been resolved.
11. **When an Incomplete Loan Item is uploaded to PRS, do we need to also reach out to Freddie Mac Underwriting?** No direct contact with Freddie Mac Underwriting is required. The appropriate Underwriting personnel will be alerted to the presence of the documentation upon upload through PRS. Once their review is complete, either the closure of the item or any additional requirements will be communicated to your Servicing team.
12. **Will a Borrower be allowed to enter into a Forbearance Agreement when a DSR is in place?** No. A borrower cannot claim hardship when the DSR is available for disbursement.

Lender Inspection

13. **What are requirements for performance of the final Lender Inspection?** The final inspection must be completed in accordance with Chapter 8SBL.15 of the Freddie Mac *Multifamily Seller/Service Guide* ("*Guide*"). The inspector must be "...familiar with evaluating multifamily asset quality." 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 benefiting financially or otherwise from the origination of the Mortgage.
14. **Should we alert Freddie Mac prior to scheduling the final Lender Inspection?** Yes, the standard process in SBL should be followed when scheduling a site inspection. The regional inspection coordinator will work with you in determining Freddie Mac's availability to join the inspection.
15. **Is a lease audit necessary if conducted upfront with the initial full underwriting package submission?** Yes. Given that a lease audit is part of a Complete Inspection as defined by the *Guide*, this should be completed at the time of the follow-up inspection.
16. **For virtual inspections, how many leases must be audited and units inspected?** The minimum number of leases audited is double the *Guide* requirement. No changes were made to the total number of units

required to be inspected. 50% of the leases audited must be from units inspected, and the number of leases audited must be the greater of six units or 10% of the total number of units.

17. **If a management interview was conducted upfront with the initial full underwriting package submission, will a new interview be required?** Similar to the response noted above, because a manager interview is part of a Complete Inspection as defined by the *Guide*, this should be completed at the time of the follow-up inspection.
18. **Does the Lender Inspection have to be completed by a certain time?** There is no specified deadline. The COVID-19 Additional Requirements Rider provides that the inspection should be completed “as soon as practicable following the Closing Date”. The DSR will not be released until the inspection has been completed, submitted to Freddie Mac, and found to be acceptable.

Clearing of Incomplete Loan Items

19. **How do I manage the clearing of Incomplete Loan Items around the time of Loan Closing?** To the extent the Incomplete Loan Item can be submitted and reviewed by Freddie Mac Underwriting **prior to** Closing, it can be handled very easily via a commitment amendment. In the event the document is not received until after closing, then it should be retained and submitted only once the loan is boarded and it appears in the PRS system as an LIT.
20. **What is the expectation for a final 3rd party report (i.e., Physical Risk Report, Appraisal, etc.) – is a fully-updated report required as of the final date of inspection or is an update of the original report acceptable?** Unlike the Lender Inspection (which must be a Complete Inspection as of the completion date), the 3rd party re-inspections must cover those areas of the property (or entire property) not previously inspected to meet Guide requirements. The report update can take the form of a side letter or other documentation referencing the original report that either confirms the original conclusions stand, or details any changes required.
21. **If any issues arise from the final inspection (from physical inspection, management interview, lease audit, etc.) what happens?** These will be addressed by the Freddie Mac Underwriter as they arise and will be handled on a case-by-case basis. Keep in mind that the DSR will not be released to the Borrower until funds have been deposited into escrow, if necessary, to remediate any items identified upon receipt of the final Lender Inspection or other Incomplete Loan Item.
22. **What happens if an Incomplete Loan Item (i.e., final Physical Risk Report, Appraisal) discloses deferred maintenance, environmental issues or other issues?** Borrower is responsible for curing any matters that may arise. This may result in Borrower being required to make a deposit into a Special Purpose Reserve.
23. **What happens if a final appraisal contains a lower valuation than the original appraisal used at full underwriting?** We consider this a low risk and are willing to accept it. We will carefully evaluate the value conclusion at the time of underwriting in these situations. There is no right-sizing requirement in the loan documents.
24. **For situations requiring an amendment to the Loan Agreement, who will prepare this document?** During Underwriting’s review of the final due diligence, any shortfalls or gaps requiring an amendment will be identified. The amendment will be prepared by Freddie Mac and sent to the Servicing contact for execution

(similar to our standard Document Correction process).

Disbursement from the DSR

25. **What happens if rental collections are above Breakeven Rental Collections, but expenses at the property increase and the Borrower finds itself short of cash for the debt service payment?** If collections are not below Breakeven Rental Collections, Borrower cannot make a draw from the DSR. Since the concern around COVID-19 was really around the durability of rental collections during this uncertain time and the impact of the CARES Act, increased unemployment, tenants getting sick, etc., we tied both the disbursement and release provisions to collections only – completely separated from expenses.
26. **Does the DSR have to be held a minimum of 12 months? If COVID-19 restrictions are cleared in a few months, can the escrows be released?** Release of the DSR will be considered after all federal, state, and local emergency declarations, shelter in place orders, or similar government actions related to COVID-19 applicable to the Property Jurisdiction have been lifted for at least 90 days, all outstanding due diligence has been satisfactorily reviewed by Freddie Mac, and required occupancy and collections tests are met.

The updated language (dated 5-27-2020) provides a path forward for borrowers to request release of the DSR 12 months after the First Payment Date (as defined in the Note) if borrower can satisfy all other conditions, but federal/state/local emergency declarations remain in effect. Final approval is required by Freddie Mac before the DSR can be released.

Seller/Servicer obligations: It is the Seller/Servicer's responsibility to use diligent and best efforts to perform and/or engage its consultants to perform all Deferred Due Diligence (as defined in the COVID-19 Additional Requirements Rider) within the 90-day period following the end of all emergency statuses applicable to the property or 12 months after the First Payment Date.

Borrower requirements: In order to terminate the COVID-19 DSR, in addition to meeting the other requirements of the Loan Agreement rider, borrower must certify to Lender that the 90-day period following the end of all emergency statuses applicable to the property has passed or borrower must wait until at least 12 months have elapsed since the First Payment Date.

Release of the DSR

27. **Can Lender deduct any expenses incurred (legal fees, travel expenses for site inspections, additional report costs, etc.) from the Borrower's DSR escrow before releasing it to them, instead of trying to collect from the Borrower?** Per the COVID-19 Additional Requirements Rider, the DSR cannot be released until all required payments have been made.