June 2023

SBL Boilerplate

Mortgage Transaction Narrative – Best Practices

EXTERNAL BOILERPLATE

**Transaction Overview**

**Cash-Out Refinance**

Seller name funded and Freddie Mac purchased a $\_\_\_\_\_\_ ($\_\_\_\_\_/unit) \_\_-year fixed-rate/hybrid loan secured by a first lien on property name, a \_\_\_-unit, style apartment complex located in city, state *(if small/unknown market, include: approximately \_\_\_ miles from \_\_\_\_\_\_ (closest major/known city)*. The borrower purchased/developed the property in month, year for $\_\_\_\_\_ ($\_\_\_\_\_/unit) [and has since invested $\_\_\_\_\_\_\_ in capital improvements for a total cost basis of $\_\_\_\_\_\_\_.] This loan refinanced existing debt of $\_\_\_\_\_\_. The borrower cashed out $\_\_\_\_\_\_ as part of this transaction and has $\_\_\_\_\_\_ cash equity remaining in the deal (\_\_\_% of the total cost basis).

**Cash-In Refinance**

Seller name funded and Freddie Mac purchased a $\_\_\_\_\_\_ ($\_\_\_\_\_/unit) \_\_-year fixed-rate/hybrid loan secured by a first lien on property name, a \_\_\_-unit, style apartment complex located in city, state *(if small/unknown market, include: approximately \_\_\_ miles from \_\_\_\_\_\_ (closest major/known city)*. The borrower purchased/developed the property in year for $\_\_\_\_\_ ($\_\_\_\_\_/unit) and the loan refinanced existing debt of $\_\_\_\_\_\_. The borrower contributed $\_\_\_\_\_\_ as part of this transaction and has $\_\_\_\_\_\_ cash equity remaining in the deal (\_\_\_% of the total cost basis).

**Full Cash Out/Unencumbered Property**

Seller name funded and Freddie Mac purchased a $\_\_\_\_\_\_ ($\_\_\_\_\_/unit) \_\_-year fixed-rate/hybrid loan secured by a first lien on property name, a \_\_\_-unit, style apartment complex located in city, state *(if small/unknown market, include: approximately \_\_\_ miles from \_\_\_\_\_\_ (closest major/known city)*. The borrower purchased the property with all cash in month, year for $\_\_\_\_\_ ($\_\_\_\_\_/unit) and has since invested $\_\_\_\_\_\_\_ in capital improvements for a total cost basis of $\_\_\_\_\_\_\_. Since the property was unencumbered, the borrower cashed out $\_\_\_\_\_\_ as part of this transaction and has $\_\_\_\_\_\_ cash equity remaining in the deal (\_\_\_% of the total cost basis).

**Refinance Investment Story**

*Please include any additional details in a separate paragraph in the transaction summary.*

*If the cash is not a simple pay out, what will the proceeds go towards, back into the property as capex, to acquire/develop other properties?  If there are limited details, include information about the sponsors investment in the local market—time in the market/number of units/apartments in the area to demonstrate long term commitment to the (sub)market*

**Acquisition**

Seller name funded and Freddie Mac purchased a $\_\_\_\_\_\_ ($\_\_\_\_\_/unit) \_\_-year fixed-rate/hybrid loan secured by a first lien on property name, a \_\_\_-unit, style apartment complex located in city, state *(if small/unknown market, include: approximately \_\_\_ miles from \_\_\_\_\_\_ (closest major/known city)*.*)* The borrower acquired the property from “[Current Owner of Property (True Seller)], at arm’s-length [if not at arm’s-length, include any sale conditions (distressed, sold at a premium/discount, deferred maintenance, previously agreed upon sales price, etc.)], at a purchase price of $\_\_\_\_\_\_ in (month and year). The borrower contributed $\_\_\_\_\_\_ of cash equity at the time of closing, equating to a \_\_\_% LTPP. The guarantor contributed \_\_% of the cash equity at the time of closing.

*Address any unusual facts surrounding the transaction (i.e. distressed sale, note purchase, partnership buyout, large discrepancy between purchase price and appraised value, foreclosure, arm’s-length transaction, as distressed asset as vacant or with deferred maintenance, part of 1031 exchange financing, breakout of equity if control member has minimal cash equity, and planned renovations). Include any additional details as necessary per the approver’s preferences. Use your best discretion to determine whether it is appropriate to include details in the transaction summary, or whether it can be sufficiently addressed throughout the remainder to the Brief/ASR.*

**Portfolio Acquisition**

This property is part of a \_\_-loan portfolio, sponsored by \_\_\_\_\_, and was acquired for a combined loan amount of $\_\_\_\_. [The properties are all located within the \_\_\_\_\_ MSA.] The properties acquired as part of the portfolio are:\_\_\_\_.

**For Pooled Loan Transactions:**

The property is one of #-[cross-collateralized] properties sponsored by Sponsor Name, with a combined loan amount of $\_\_\_\_\_. The properties have a total of \_\_ apartment units. [Student Properties: The properties have a total of \_\_ student housing units and \_\_ beds.] The properties with common sponsorship are: Property Names.

**Transaction Strengths**

**Cash Equity**

Based on the year purchase price/development cost of $\_\_\_\_\_\_ plus capital improvements of $\_\_\_\_\_\_, the borrower’s cash equity in the transaction is $­­­\_\_\_\_\_\_representing approximately \_\_\_% of the total cost basis.

**Conservatively Underwritten NOI**

*Note: Only use when the underwritten NOI is at least 5% below the T-12 NOI. If the underwritten NOI was below the T-12 due primarily to expense cuts, consider providing additional support.*

The property's financial performance was conservatively underwritten based on \_\_\_\_. *Describe any significant factors that caused the loan to be conservatively underwritten. i.e. taxes, R&M, inclusion of management fee, etc.* The subject's underwritten NRI was \_\_% below the actual T-12 and \_\_% below the appraisal. The total expenses were underwritten \_\_% above the T-12 and \_\_% above the appraisal. The underwritten expense ratio of \_\_% is greater than the T-12 expense ratio of \_\_% and the appraisal expense ratio of \_\_%. This resulted in the underwritten NOI being \_\_% below the T-12 and \_\_% below the appraisal, and the amortizing DSCR being \_.\_\_x.

**Loan Economics**

*Note: Only use when DSCR is over 1.40x AND LTV is less than 65%*

The loan represents a \_\_\_% underwritten LTV with an amortizing DSCR of \_.\_\_ x based on an underwritten NOI that is \_\_\_ % less than T-12 ending \_\_/\_\_/\_\_, \_\_% less than YE 20XX, and \_\_\_% less than YE 20XX.

**Strong Sponsor(s)**

The guarantor(s), \_\_\_\_\_\_ [and \_\_\_\_\_\_], have a combined net worth and liquidity of $\_\_\_ (\_\_x the loan amount) and $\_\_\_\_\_\_ (\_\_ months of debt service), respectively. [Name of Guarantor] has \_\_\_ years of experience owning and operating multifamily properties in the \_\_\_\_\_ market. [Name of Guarantor] reported ownership in \_\_\_\_ multifamily assets totaling \_\_ units located in \_\_\_\_\_ [list markets where guarantor has multifamily assets] with \_\_\_\_ assets located in the \_\_\_\_\_\_ market. The guarantor’s portfolio was performing at a weighted average DSCR and LTV of \_\_\_x and XX.X%, respectively.

*Note any qualitative experience the sponsors have in real estate or finance (i.e. professional experience, experience in the market, experience as a property manager, etc.) If there are multiple related sponsors, please note whether they submitted individual or joint financial statements.*

*If Freddie Mac repeat sponsor*: [Name of Guarantor] is a repeat Freddie Mac sponsor, having previously completed \_\_\_ transactions [*If Lender information was provided on the Sponsor’s SREO include: (XX% of the sponsor’s overall portfolio)* totaling $\_\_\_ in UPB. The sponsor has \_\_ loans with Freddie Mac in the \_\_\_\_ market. The loans have paid as agreed*.*

**Property Management**

*If management is listed as a strength, do not include a paragraph in the management section.*

The property is managed by \_\_\_\_\_\_, a [borrower- related/third party] management company. Management company name was established in \_\_\_\_\_\_. *Note if the management firm specializes in smaller (5-50 units) properties, properties in a specific locality, etc.* Management company name manages \_\_\_\_\_\_ multifamily properties containing \_\_\_\_\_\_units in [markets/region/nationwide] with \_\_\_\_\_\_ units under management locally. *Emphasize local management expertise if a large percentage of units are managed locally.*

*If management company manages other assets for the sponsor:* Management company name successfully manages \_\_ other properties on behalf of the sponsor. The sponsor’s properties managed by Management company name have a weighted average DSCR and LTV of \_.\_\_x and \_\_.\_%, respectively.

**Excellent Property Condition**

The property was noted to be in [excellent/above average] physical condition by the engineer with the PCA noting [no/minimal] priority repairs. The borrower has completed capital improvements totaling approximately $\_\_\_\_\_ ($\_\_\_/unit) including \_\_\_\_\_\_\_ *describe capital improvements such as interior renovations, updated exteriors, landscaping, amenity renovations, etc.* The borrower plans to invest an additional $\_\_\_\_ in capital improvements consisting of \_\_\_\_\_\_. *Provide REIS inventory support* The property was built in Year, and per REIS Quarter Year, the property is consistent with the submarket as \_\_\_% of the submarket inventory was built before \_\_\_\_.

**Recent Renovations**

*Note: Only use when the total renovations are equal to at least 10% of the UPB of the loan. In instances where total renovations are less than 10%, but where significant renovations have been completed for a portion of units, consider including this strength if the renovations are at least $1,000/unit.*  
The borrower/previous owner completed $\_\_\_\_\_ ($\_\_\_/unit) in capital improvements since [year], which include [list recently completed capital improvements]. [Since acquisition/Over the past X years] X units have been renovated. Renovated units are achieving rental premiums of $XXX, approximately XX.X% over unrenovated units. In addition, the borrower plans to spend $\_\_\_\_ in capital improvements over the next \_\_\_ years, which include [list planned capital improvement projects].

**Long Term Ownership**

The sponsor has successfully owned and operated the subject property for \_\_\_ years. The T-12 ending \_\_\_, and [list historical YE operating statements, i.e. YE 20XX, YE 20XX, and YE 20XX] show stable operations at the property (*If any historical I&E does not have stable operations, mitigate this concern by stating the reason for the unstable performance)*. The sponsor has invested $\_\_\_\_ in capital expenditures since \_\_\_\_, which include [list recent capital improvements]. The property was considered to be in \_\_\_\_\_ condition by the Physical Risk Report with little/no deferred maintenance required.

**Location and Access**

The property is located \_\_\_ miles direction of the \_\_\_\_\_\_ CBD and is well-situated in the \_\_\_\_\_\_\_ market as it has easy access to transportation, amenities, and employment centers. Interstate \_\_\_, a [direction] traveling road, is located \_\_ miles from the property and provides access to \_\_\_\_\_ [list nearest attraction that interstate leads to]. Major secondary artery, a [direction] traveling road, is located \_\_ miles of the property and provides access to \_\_\_\_\_ [list nearest attraction that interstate leads to]. *Replace with bus/metro stations if in major metropolitan location.* The property is \_\_\_ miles N/S/E/W of list major retailers or retail centers and any other large amenity, such as a library, museum, or stadium. Lastly, the property has excellent access to employers such as list three closest top employers (\_\_ miles N/S/E/W).

**Market Economics**

The property is in a growing market that consistently supports demand for multifamily housing. The unemployment rate is \_\_\_%, which is \_\_\_% below the state/national average. The total population base within a five-mile radius of the property is approximately \_\_\_\_\_\_ with an average household income of $\_\_\_\_\_\_. Furthermore, the population in county/MSA is expected to grow \_\_\_% between \_\_\_ and \_\_\_. Per REIS quarter/year, the submarket vacancy rate is \_\_\_%. The submarket vacancy rate for properties of a similar vintage as the subject was \_\_%. Vacancies in the submarket are expected to remain below \_\_\_% over the next five years. *If very low historical vacancy:* The subject property has maintained a \_\_% vacancy over the past X years/T-12 ending \_\_/\_\_/\_\_\_. Over the next five years, asking rents are projected to increase on average by \_\_\_% annually. *Mention any new developments, expansion of demand drivers or public transportation that will improve fundamentals. In addition, if the property market has a significant stock of renters vs. owners, e.g., New York City, mention here.*

**Income Growth Potential**

For rent controlled/rent stabilized properties:

\_\_\_\_ units at the property (XX%) are rent controlled/rent stabilized/XX.X% below the [maximum allowable/market rent. The owner can increase rents to market levels as units [turn/are renovated]. [The sponsor is currently planning $XX in capital improvements to renovate XX units at the property and is anticipating rental premiums of approximately $XXX.] With all units at the [appraiser’s concluded market rent/sponsor’s anticipated post-renovation rents], GPR would increase by $\_\_\_\_ annually. The property was 100% occupied as of the \_\_/\_\_/\_\_\_ rent roll and the break-even occupancy is \_\_\_%.

For market-rate properties:

The subject’s rents are \_\_% below the REIS Quarter/Year submarket rents of $\_\_\_ [for similar vintage properties (XXXX-XXXX). The owner can increase rents to market levels as units turn upon completing planned capital improvements of \_\_\_\_ [list capital improvements], at an estimated cost of $\_\_\_. With all units at the average REIS submarket rent, GPR would increase by $\_\_\_ annually. The property was \_\_% occupied as of the \_\_/\_\_/\_\_\_\_ rent roll and the break-even occupancy is \_\_%. *If unit sizes are larger than typical for the submarket, provide an additional rent comparison on a PSF basis. If the property contains a non-typical unit mix for the submarket, provide rent comparison to the market on a unit-mix basis.*

**Transaction Risks/Mitigants**

**Transaction**

**Cash Out**

The borrower cashed out $\_\_\_\_ as a part of this transaction. This risk is mitigated by $\_\_\_ of cash equity remaining in the transaction, representing approximately \_\_\_% of the total cost basis.

*If no cash equity remains, use long term ownership to mitigate risk:*  This risk is mitigated by successful long-term ownership of the property since acquisition in [month, year].

*If the guarantor is not a long-term owner, use capital improvements to mitigate risk:* The borrower has invested $\_\_\_\_ ($\_\_\_/unit) in capital improvements since \_\_\_.

*If the capital improvements have resulted in collections or performance improvements, note the % increase in NRI/NOI since acquisition:* This has led to a XX.X% [NRI/NOI] increase, from $XXX at the time of acquisition in XXXX, to $XXX as of the T-12 ending \_\_/\_\_/\_\_\_\_.

*If there are no recent capital improvements, use implied market equity and LTV rebalancing to mitigate risk. Please note, these should not be used as the primary mitigants and support for significant cash outs:* Based on the appraised value of $\_\_\_, there is still $\_\_\_ (\_\_%) of implied market equity remaining in the deal. The cash out is further supported by a rebalancing from a low LTV on the refinanced loan (XX%), to an LTV of XX% on the subject transaction.

*Include the borrower’s intended cash out use:* The borrower intends to use the cash out proceeds for [list uses]. *Examples include capital improvements at the property or across the sponsor’s portfolio, buying out equity partners, or purchasing additional properties.*

**Limited Operating History**

The only financial statements provided were [list financial statements provided] because [select from options below]

* the previous owner purchased the property in month year and did not have any prior years’ statements from the seller.
* the previous owner purchased the property in month year and subsequently renovated the property and stabilized operations in month year.
* the sponsor purchased the property in month year and subsequently renovated the property and stabilized operations in month year.
* The property was constructed in month year and operations were stabilized in month year.

The underwritten income is supported by the appraisal and the T-\_\_ annualized ending [Month Year]. The underwritten expenses are supported by the appraisal and Freddie Mac market comparables. Because of the lack of operating history, the NOI was conservatively underwritten to \_\_\_% less than the appraisal and \_\_\_% less than the T-\_\_ ending \_\_/\_\_/\_\_.

**Short Term Value Growth**

Per the appraiser, the As Is Value is \_\_% greater than the prior purchase price due to *(recent capex and/or renovations or an increase in rent levels at the property and improved market conditions).* Since acquisition, *Sponsor* has upgraded X units (X%) at a cost of approximately $\_\_\_($\_\_\_/unit). Renovated units are achieving rent premiums $\_\_/unit. As a result, NRI has increased by XX.X%, from $XXX at the time of acquisition in XXXX, to $XXX as of the T-12 ending \_\_/\_\_/\_\_\_\_. Exterior renovations since acquisition total $\_\_\_($\_\_/unit) and include renovations to the (*list all improvements made*). This has led to a X% NOI increase since the T-X ending MM/DD/YYYY. *If NOI growth is due to expense cuts, please indicate if the expense cuts are supported by Freddie Mac/Appraisal/Borrower comparables. If not, please provide further support for the expense comps.* The difference between these amounts ($XXX), when capped at the appraisal cap rate of XX%, produces an increase in value of $XXX [, which is supported by the appraiser’s value conclusion of $XXX]. The cap rate has compressed \_\_\_bps from \_\_\_ to \_\_\_ (*if applicable*). (*If cap rate has stayed the same*, note that the value growth is not attributed to cap rate compression). In addition, per Reis asking rents in the submarket have increased X% while vacancy rates have ranged between X%-X% over the same timeframe. The risk is further mitigated by the underwritten I/O and amortizing DSCRs of \_.\_\_x and \_.\_\_x, respectively, on sustainable cash flow that is X.X% less than T-X ending M/DD/YYYY. *Note if the value is supported by recent sales comparables in the local market.*

*Include details on the condition of the property prior to the value growth (i.e. Was the property a distressed asset? Were there down units? Was the property suffering from poor management that significantly impacted performance?). If the property was purchased in a distressed state, please provide details on the conditions of the sale, as well as details on the vacancy, property condition, and operations at the time of acquisition. What steps has the sponsor taken to improve the property, and to mitigate the risk that the property will fall into a similar distressed state?*

**Subject Bought out of Foreclosure Sale**

The subject property was purchased out of a foreclosure sale for $\_\_\_\_\_\_ ($\_\_\_\_/unit). The subject was foreclosed on \_\_/\_\_/\_\_ because of issues related to the prior owner’s operation and management of the property. [*Explain in detail what issues the prior owner had i.e. not qualifying tenants and having too many evictions, illegal activity, unfavorable terms/interest rate on prior loan, maintenance issues, etc.*] The property is currently stabilized with a DSCR and LTV of \_.\_\_x and \_\_.\_% as of the T-12 ending \_\_/\_\_/\_\_. The sponsor plans to correct the prior issues at the property by \_\_ [*Explain how borrower will avoid repeating the issues that led to foreclosure i.e. local, experienced management, better tenant screening, planned capex, etc.*]. The market has historically been stable with the vacancy being below \_\_.\_% from XXXX to XXXX and rent increasing by \_\_.\_% over the same time period. Per REIS \_Q 2023, the submarket vacancy was \_\_.\_% and the submarket vacancy for properties of a similar vintage was \_\_.\_%. Vacancy is projected to remain below \_\_.\_%. Average rents were $\_,\_\_\_ and were expected to grow by an average of \_\_.\_% annually over the next five years. The submarket is projected to have \_\_ units added to the market over the next five years with \_\_ units absorbed.

*If the loan was conservatively underwritten (i.e. low LTV, high DSCR, no I/O, or NOI significantly lower than T-12), please also include this information here.*

**Full Term Interest Only**

*Include for hybrid loans that are interest-only for the entire fixed-rate period.*

The loan is interest-only for the entire term. This risk is mitigated by $\_\_\_\_ of cash equity remaining in the deal, representing \_\_\_% of the total cost basis. The loan was conservatively underwritten to an LTV and I/O DSCR of \_\_% and \_.\_\_x, respectively, based on sustainable cash flow that is \_\_.\_\_% below the T-12 ending \_\_/\_\_/\_\_. *Note long term ownership, any recent renovations, or if Reis projects high rent growth in the submarket.*

**Rent Control/Rent Stabilization**

The property is subject to the [state/city] \_\_\_\_’s rent [control/stabilization] regulations. *Describe the requirements and limitations of the rent control or stabilization.* This limits the amount a landlord can increase rent on an annual basis to [$\_\_/unit / XX% increase]. As a result, there is a risk that expenses can outpace allowable rental growth. Although rent [control/stabilization] limits income potential, it keeps occupancy rates high and demand for low-cost housing will reduce vacancy risk.

*Consider the other requirements of the rent control or stabilization laws. Are annual increases determined by a governmental group or commission, or by a predetermined amount? Can landlords recover costs for capital improvements or utility expenses, and if so, by how much? How much can rents be increased upon unit turn? Are the restrictions permanent, or will they phase out or require renewal? If temporary, when do the restrictions expire and how much could the property’s rents increase upon termination? If renewal is required, how likely is that renewal? How do the property’s rents compare to the market/submarket rent? Is there potential upside following deregulation?*

*If the property is subject to multiple instances of rent control/rent stabilization, focus on the most restrictive.*

**California State Law AB-1482**

The property is subject to California state law AB-1482 which restricts landlords from raising rents more than 5% in one year, plus the local cost of inflation; or 10%, whichever is lower. The bill further requires landlords to have “just cause,” such as failure to pay rent, when terminating a lease. Landlords are allowed increases in excess of the caps if they substantially renovate a property and pay relocation fees that are equal to one month of the current rental rate.

**City of Los Angeles Rent Control**

The property is subject to California State Law AB-1482 and the City of Los Angeles rent control ordinance. The more restrictive City of Los Angeles rent control ordinance limits rental increases to the CPI averaged for the 12-month period ending September 30th of each year. Further, if the landlord pays all the costs of electricity and/or gas services for a rental unit then the maximum adjusted rent may be increased a one additional one percent for each service paid by the landlord, not to exceed a total of two percent.

**NYC Rent Stabilization**

\_\_ of the property’s units (XX%) are subject to NYC rent stabilization laws. The Housing and Stability and Tenant Protection Act of 2019 (HSTPA) increased regulations on rent stabilized properties and included limits to the borrower’s ability to increase rents upon renewal or vacancy, removed the ability to deregulate units, and limited rental increases following capital improvements and renovations. Rental increases on renewal leases for stabilized units are determined by the NYC Rent Guidelines Board. As a result, there is a risk that expenses can outpace allowable rental growth. Although the HSTPA limits income potential, it keeps occupancy rates high, and due to demand for low cost housing, will reduce vacancy risk.

**Tax Abatement**

The subject currently benefits from a [name type of abatement]. *State why the abatement is in place.* *Include the term of the abatement and how far into the term the property is at the time of underwriting, and how much time is left in the abatement. Include the net present value of the abatement on a per unit basis, as well as the discount rate used to determine the net present value. List any conditions required to keep the abatement such as rent stabilization. Perform a cash flow analysis and describe the impact that the abetment has on property performance describe results and attach analysis to brief.* Underwriting to full unabated taxes, the property performs at a \_\_\_x DSCR.

**421-a Tax Abatement**

The subject benefits from a 421-a Tax Abatement, which provides tax incentives to developers to encourage the development of affordable housing on under-utilized land. The developer receives a full tax exemption in exchange for setting aside a percentage of units deemed affordable, and by making some or all units subject to rent stabilization. The abatement began in \_\_\_\_ and will begin phasing out in \_\_\_\_, reaching full taxes in \_\_\_\_/\_\_. *If the abatement begins phasing out or expires during the loan term, discuss the impact that expiration will have on cashflow. Further, compare the restricted rents to market rents, and discuss any potential rental upside from bringing restricted units to market. Discuss the impact that rent stabilization had upon value. If the difference between the encumbered or unencumbered valuations is material, compare the restricted rents and market rents to support the valuation.* Following expiration of the abatement, the units will no longer be considered rent stabilized. The total value of the abatement is $\_\_\_\_\_, with $\_\_\_\_ of the benefit remaining. Underwriting to full unabated taxes, the property performs at a \_\_\_x DSCR. *If the DSCR is below a 1.25x when underwriting to full unabated taxes, discuss any steps the sponsor is taking to improve the performance of the property during the abatement. What are the sponsor’s plans post-abatement?*

**J-51 Tax Abatement**

The subject benefits from a J-51 Tax Abatement, which is available for properties that undergo major rehabilitation projects. The maximum abatement is determined by the renovation costs deemed eligible for benefits as regulated by the New York Department of Housing Preservation and Development. Properties receiving J-51 Tax Abatements are considered permanently rent stabilized. The abatement began in \_\_\_\_ and will begin phasing out in \_\_\_\_, reaching full taxes in \_\_\_\_/\_\_. *If the abatement begins phasing out or expires during the loan term, discuss the impact that expiration will have on cashflow.* The total value of the abatement is $\_\_\_\_\_, with $\_\_\_\_ of the benefit remaining. Underwriting to full unabated taxes, the property performs at a \_\_\_x DSCR. *If the DSCR is below a 1.25x when underwriting to full unabated taxes, discuss any steps the sponsor is taking to improve the performance of the property during the abatement. What are the sponsor’s plans post-abatement? Include details on whether the property was confirmed to be part of the Vacant Building Program initiative.*

*In very rare circumstances, units rent stabilized due to J-51 tax abatements can revert to market rents upon abatement expiration. In order for Freddie Mac to consider conversion to market rents, strong evidence will need to be presented that the units will qualify for conversion. If there is confirmation, discuss any potential upside from bringing the restricted units to market, and discuss the impact that moving to market rents will have upon valuation.*

**Freddie Mac Watchlist**

***This should only be included for loans appearing on the external watchlist.*** *Include as weakness if the subject property, or the sponsor’s other properties, appear on the Moderate or High watchlist. If the subject property appears on the Low watchlist, include in property overview. If the sponsor’s other properties appear on the Low watchlist, include in borrower overview.*

*If the subject property is on the watchlist:* The subject property is on the Freddie Mac [Low/Moderate/High] Risk Watchlist due to \_\_\_\_\_\_\_. *Indicate how we got comfortable with the deal despite the loan appearing on the Watchlist. here should be a clear explanation for why the loan is on the watchlist, as well as what steps the sponsor is taking to correct any issues. Did Freddie Mac have any extra requirements to mitigate the risk for the subject loan?*

*If the sponsor has other loans on the watchlist:* The sponsor has X loans appearing on the Freddie Mac [Low/Moderate/High] Risk Watchlist due to \_\_\_\_\_. *Indicate how we became comfortable doing additional business with the sponsor, despite the sponsor having loans on the watchlist. This should be a high-level overview and should not include detailed specifics about the sponsor’s other loans.*

**Collateral**

**Property Age**

*If property is in good condition despite age ≥ 20 years:* The property was built in \_\_\_\_\_\_.It has been well maintained by the owner as there are no/minimal immediate repairs recommended by the engineering report. Recently completed capital improvements include list recent projects, at an estimated cost of $\_\_\_\_\_\_. The borrower plans to invest $\_\_\_\_\_\_ in capital improvements including list items, etc. over the next 12 months. Per Reis quarter/year, the property is consistent with the submarket inventory with \_\_% built before \_\_\_\_\_\_. *Describe other mitigants which may include strong historical stable occupancy, lack of available land, etc.*

**Property Condition/Deferred Maintenance**

*If property is older and has a lot of deferred maintenance/condition issues:* The property was built in \_\_\_\_\_\_. The engineer identified repairs of $\_\_\_\_ which include \_\_\_ ($\_\_\_\_), \_\_\_ ($\_\_\_\_), and \_\_\_\_ ($\_\_\_). Per the Multifamily Loan and Security Agreement, the repairs must be completed within \_\_ days of closing. The funds were escrowed at 100%/125% of anticipated costs. These repairs are full recourse to the borrower. Additionally, a monthly replacement reserve deposit of $\_\_\_/month is being collected. *Describe other mitigants which may include strong historical stable occupancy, lack of available land, etc.*

**Down Units**

The property had \_\_\_ down units as of the site inspection dated \_\_/\_\_/\_\_. The units were down due to [tell story explaining why units are down]. To mitigate this risk, the engineer included a priority repair to bring these units back online at an estimated cost of $\_\_\_. The borrower provided an escrow totaling $\_\_\_ at closing for the completion of the down unit repairs [as well as other minor repairs listed by the engineer].

**Septic Tank**

A septic tank was noted at the property.

*If no further testing/repairs:* The engineer determined that the Septic Tank was in good condition and could be managed in place. *Note any tightness tests and if the tank has been historically issue-free.*

*If further testing/repairs required:* Per the Engineer, further testing/repairs is required and was included as a Priority Repair at an estimated cost of $\_\_\_. Priority Repairs are due within 12 months of closing and are full recourse to the borrower.

*Discuss any major issues with loan approver.*

**Non-Municipal Drinking Water**

Non-municipal drinking water was noted at the property.

*If no further testing/repairs:* The engineer determined that there were no issues with the non-municipal drinking water and that no further testing was required. *Show that the private system is comparable to a system installed/operated by a utility company.*

*If further testing/repairs required:* Per the Engineer, further testing/repairs is required and was included as a Priority Repair at an estimated cost of $\_\_\_. Priority Repairs are due within 12 months of closing and are full recourse to the borrower.

*Discuss any major issues with loan approver.*

**Micro Units**

The subject's units are on average \_\_\_ square feet, which is notably small for the market. The property was \_\_.\_\_% vacant as of the rent roll dated \_\_/\_\_/\_\_ [note high historical occupancy if possible]. *Defend our stance that there will be demand for this product. How does occupancy at the property compare to Reis submarket averages or appraisal rent comps? Are micro units common in the market – reference other micro unit properties in the market and how they have been received by the market? How are the subject’s unit finishes, appliance packages, and amenities?*

**Tenant Concentration**

*Student:* The property has a \_\_\_\_% student tenant concentration. \_\_\_\_ [list local universities] are located \_\_\_ miles [direction] of the property. The [name of university] has \_\_\_ [number] students, and the [name of university] has \_\_\_ [number] students. *Describe anything else notable about the university.* *List how many units are leased to graduate vs. ungraduated students and whether a parental guarantee is in place for these units. Are leases a full 12-month term?* The guarantor does not market the property to students and the units are not rented on a per bed basis.

*Military:* The property has a \_\_\_% military tenant concentration. *Include details about nearby bases and if personnel at the bases have a high/low chance of deployment. Is the subject’s market heavily dependent on military installations? Discuss subject’s history with Base Realignment and Closure (“BRAC”) and the chance of closure going forward. Also use other demand drivers in the market that could continue to support the property in the event of a major deployment or closure.*

*Corporate:* As of the \_\_/\_\_/\_\_ rent roll, (\_\_%) of units are leased to [corporate tenant(s)]. The corporate tenant concentration has not affected the subject's strong occupancy and stable income. *Are corporate leases at market rate and 12+ months?* *Any information about the corporate tenants’ size and financial strength can be helpful.*

*Age-restricted:* As of the \_\_/\_\_/\_\_\_\_ property inspection, the property had a \_\_\_% senior tenant concentration. The subject [is/is not] age-restricted. *If the property is age-restricted then provide details on tenant restrictions, as well as if there are any senior related special services offered at the property.* The subject’s occupancy has been stable as it has ranged from \_\_% to \_\_% from year to year. The occupancy was \_\_% as of \_\_/\_\_/\_\_\_, which is above the submarket occupancy of \_\_%. The property does not have any amenities or services typical of a dedicated seniors housing property.

**Month-to-Month Tenant Concentration**

*Only include as weakness if greater than 10%. If lower than 10%, include in property overview.*

\_\_ out of \_\_ total units at the property are leased on a month-to-month basis. These leases began as \_\_ month leases and converted to month-to-month leases after the initial lease term ended. Month-to-month leases are common in the subject’s market. Even though \_\_ units are leased on a month-to-month basis, \_\_ tenants have been residents at the property for over \_\_\_ years. The property has outperformed the submarket in terms of occupancy as its vacancy was \_\_% as of \_\_/\_\_/\_\_\_\_ whereas the submarket vacancy was \_\_% as of \_Q \_\_\_\_. In addition, the Loan Agreement dated \_\_/\_\_/\_\_\_\_ states that new leases must be for initial terms of at least six months to two years.

**Section 8 Tenant Concentration**

*Only include as weakness if greater than 50%. For concentrations below 50%, include in property overview.*

\_\_\_% of the subject's tenants receive Section 8 vouchers. The units occupied by Section 8 voucher tenants are in good condition and have similar finishes as other units at the subject. Because the Section 8 vouchers are guaranteed from HUD monthly, having these tenants rent units provides certainty of collections.

**Non-Contiguous Parcels**

The collateral includes \_\_\_\_ non-contiguous parcels that are located \_\_ miles from each other. The properties were built within \_\_ years of one another and have similar construction styles and unit configurations. The building located at \_\_\_ [address] has \_\_\_ [list unit mix], and the building located at \_\_\_ [address] has \_\_\_ [list unit mix]. The units at each property have similar rental rates. All residences have access to \_\_\_ [list shared amenities]. The properties have been operated together for \_\_\_ years and have an onsite manager (or list other staffing here). The properties are owned by [name of single asset entity], a single asset entity.

**Cardinal Housing**

\_\_ out of the \_\_ total units at the subject property are modular, Cardinal Homes. The structural integrity of the property was deemed acceptable as the Physical Risk Report noted the property to be in [average/above average] condition with [no/minimal] priority repairs. Replacement reserves of $\_\_\_/unit were underwritten. The loan was conservatively sized to a \_\_.\_% LTV and \_.\_\_x DSCR with \_\_-year amortization, resulting in a maturity LTV of \_\_.\_%. *Include any supporting details regarding sponsorship and strong historical occupancy.*

**Flag Lot**

The subject is located on a flag lot, behind other properties (note whether residential or commercial) and is not readily visible from the main road, name of road the property is located on. Despite this, the property has adequate signage that is well maintained and easily visible to name of road the property is located on. The property is also advertised using [describe advertising used to attract tenants to the property]. Additionally, the property has maintained a healthy occupancy as its average occupancy has ranged from \_\_% to \_\_% from year to year and averaged \_\_% during the T-12 ending \_\_/\_\_/\_\_. The occupancy was \_\_% as of the \_\_/\_\_/\_\_ rent roll.

*Is primary access to the lot provided by an access easement? If so, include the terms of the easement. Is it perpetual? Does it run with the land? Are there any shared costs? Can the property operate without the agreement? Was a carve-out required?*

**Subject Acquired via Assumption of PSA**

The borrower purchased the subject property as part of a Purchase and Sale Agreement Assumption.  The borrower acquired the property from “[Current Owner of Property (True Seller)], at arm’s-length [if not at arm’s-length, include any sale conditions (distressed, sold at a premium/discount, deferred maintenance, previously agreed upon sales price, etc.)], at a purchase price of $\_\_\_\_($\_\_/unit). The borrower [contributed/cashed out] $\_\_\_\_\_\_ as part of this transaction, equating to a \_\_\_% LTPP. *Tell the story: provide details on the original seller and why the transaction happened this way.* [Name of Guarantor] has \_\_\_ years of experience owning and operating multifamily properties in the \_\_\_\_\_ market. [Name of Guarantor] reported ownership in \_\_\_\_ multifamily assets totaling \_\_ units located in \_\_\_\_\_ [list markets where guarantor has multifamily assets] with \_\_\_\_ assets located in the \_\_\_\_\_\_ market. The guarantor’s portfolio was performing at a weighted average DSCR and LTV of \_.\_\_x and XX.X%, respectively. The purchase price is supported by [appraiser’s/Freddie Mac] value comps which range from $\_\_/unit to $\_\_/unit, with an average of $\_\_/unit.

**Sponsor**

**Limited Multifamily Experience**

*If acquisition:* The guarantor owns [no/minimal] multifamily properties in addition to the subject.

*If refinance:* The guarantor has owned the subject property for \_ years and owns [no/minimal] additional multifamily properties.

*Discuss any previous ownership of other types of real estate as well as any relevant professional experience. Mention borrower’s proximity to subject if less than \_\_\_ miles. Mention if loan has no I/O, high DSCR, or low LTV.*

*If 3rd Party Managed:* To mitigate concerns with the guarantor's lack of multifamily ownership and management experience, a professional third-party management company, [Management Firm’s Name], is managing the subject. *Include any relevant details about management firm.*

*If Self-Managed:* Because the guarantors do not have direct multifamily management experience, the current onsite manager/maintenance technician, who has lived at the property for \_\_\_ years, will be retained on an hourly basis to assist with maintenance and emergencies at the property.

**Non-Local Guarantor/Sponsor/Controlling Borrower Principal**

The guarantor/sponsor/controlling borrower principal, \_\_\_\_, resides in [City, State], approximately \_\_\_ miles from the property. *Note if the sponsor owns or manages other units in the subject market and how often they visit the property. If the sponsor resides part-time in the subject market, note how often they typically reside in the subject market and how close their residence is to the property.*

*If 3rd Party Managed:* To mitigate this risk, a professional third-party management company, [Management Firm’s Name], is managing the subject. *Include any relevant details about management firm.*

*If Self-Managed:* Because the guarantors do not live within proximity to the subject, the current onsite manager/maintenance technician, who has lived at the property for \_\_\_ years, will be retained on an hourly basis to assist with maintenance and emergencies at the property.

**[Borrower/Guarantor] SREO Maturity Risk**

*Include this in Risk section if the maturing loans are maturing within 12 months, performing below a 1.00x, are above an 80% LTV, have a loan balance greater than or equal to the borrower’s net worth, or if a significant portion of the maturing loans are interest only.*

The guarantor’s SREO dated \_\_/\_\_/\_\_\_ showed \_\_ [interest only] loan(s) maturing within 12 months. The combined unpaid balance of this/these loan[s] is $\_\_\_, which represents approximately \_\_\_% of the guarantor’s net worth. One property with a maturing loan has a DSCR of \_.\_\_x and an LTV of \_\_%. *Describe why the loan is underperforming and how the borrower plans to exit the loan. Repeat this for all loans with maturity risk.* *If a significant portion of the maturing loans are interest only, include the following:* The guarantor(s), \_\_\_\_\_ [and \_\_\_\_], have a combined net worth and liquidity of $\_\_\_ and $\_\_\_, respectively. The interest only loans maturing within 12 months had DSCRs ranging from \_.\_\_x to \_.\_\_x, averaging \_.\_\_x, and LTVs ranging from \_\_% to \_\_%, averaging \_\_%.

**[Borrower/Guarantor] SREO Underperforming Loans Risk**

*Include this in Risk section if the loans are performing below a 1.00x, are above an 80% LTV, and have a loan balance greater than or equal to the borrower’s net worth.*

The guarantor, [Guarantor’s name] reported \_\_\_ properties performing below a 1.00x DSCR. One property is a multifamily asset with \_\_ units with a DSCR of \_.\_\_x and an LTV of \_\_%. *Describe why the loan is underperforming. Mitigate these concerns by stating how the borrower plans to bring the property back to performing status. Also state whether the remainder of the borrower’s portfolio is strong enough to support the underperforming property until it begins to perform again. Use the borrower’s experience and/or substantial financial strength as a mitigant as well. For properties under development/rehab, provide a status update on the project if possible.*

**Pending Litigation**

The [guarantor/sponsor], \_\_\_\_\_, is involved in pending litigation. The litigation is *\_\_\_ vs. \_\_\_* where the plaintiff claims that \_\_\_ [describe claims against borrower]. (*Describe whether the borrower and his attorney’s response to the claims and how the litigation is expected to proceed with the most up-to-date information on the case.)* The plaintiff is claiming damages of $\_\_\_\_. *If covered by insurance:* These damages are expected to be fully covered by the insurance. *Discuss insurance coverage limits and whether the carrier has assumed defense.* *If not covered by insurance:* The damages of $\_\_\_\_\_ sought by the plaintiff represent only \_\_% of [guarantor/sponsor]’s liquidity, which indicates that the guarantor has sufficient liquidity to cover the damages. *Include any other details relevant to whether the subject litigation will materially impact the borrower/guarantor/mortgaged property, as well as what helped to Lender and Freddie Mac to become comfortable with these risks. Describe the worst-case scenario. If it occurs, how will it impact the net worth and liquidity of the sponsor/guarantor, and will it have a material impact on the property, or on the sponsor/guarantor’s ability to effectively manage the property.*

*Reminder to select data indicator for brief.*

**Prior Credit Issues**

[Guarantor/sponsor]’s disclosed a *foreclosure/short sale/late payments/* from year. *Describe circumstances of foreclosure/short sale/late payments/ detailing why the credit issue occurred and how it was resolved. If the credit issue is unresolved, note any actions the guarantor/sponsor has taken that show their willingness to make the lender whole. If the prior credit issue is mortgage based, please include additional details on the issue, the sponsor’s explanation, as well as any steps taken to mitigate the risk of this happening at the subject property. Sponsor experience and no further credit issues since the prior event (detail how long) are possible mitigants.* All obligations have been satisfied in full and there is no further pending action. [Guarantor/sponsor] reports a net worth and liquidity of $\_\_\_\_\_ (\_\_x the loan amount) and $\_\_\_\_\_ (\_\_ months of debt service), respectively.

**Negative Press**

\_\_\_\_\_\_\_\_\_ [sponsor name] and his company, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ [company name], have been subject to negative press over the years. *Describe articles containing negative press and when they came out. Describe nature of claims made in negative press. Describe borrower resolution of claims such as clearing all code violations, installing security measures, or resolving all tenant complaints.* Despite the negative press, the property was found to be in \_\_\_ condition with minimal Priority Repairs noted by the engineer. The occupancy has remained stable as it ranged from \_\_% to \_\_% from year to year. The occupancy was \_\_% as of \_\_/\_\_/\_\_\_\_.

*Reminder to select “Mitigated Finding” or “Acceptable Finding” for brief.*

**[TIC/Co-Borrower] Structure**

The ownership structure is comprised of [\_\_ Tenants in Common (TIC), [*list TIC entities*]/Co-Borrowers, [*list Co-Borrowers]]*. The borrowers are single-purpose, State, entity type. The borrower principals in charge of day-to-day operations are \_\_\_\_\_\_\_\_\_\_\_\_. The risk of the [TIC/Co-Borrower] structure is mitigated by the fact that the guarantors have interest in each [TIC/Co-Borrower/a controlling % of the [TIC interests/Co-Borrower]. *Provide years of related experience, experienced property management and/or loan economics, collection of escrows when applicable.* In addition, the loan documents contain certain provisions related to the [TIC borrower/Co-Borrower], which include: SPE Requirements, compliance with the TIC agreement, waiver of right to partition, and assignment of rights after the commencement of a bankruptcy proceeding.

**Sponsor Low Net Worth and/or Liquidity**

The [sponsor/guarantor], \_\_\_\_\_\_\_\_, reported a [net worth/liquidity] of $\_\_\_\_. To compensate, the loan was conservatively underwritten to an LTV and amortizing DSCR of \_\_% and \_.\_\_x, respectively, based on sustainable cash flow that is \_\_.\_% below the T-12 ending \_\_/\_\_/\_\_. *Note if long term owner, experienced third party management, and any relevant real estate/business experience of any sponsors. Describe how sponsor funds renovations, capital improvements and deferred maintenance despite their low net worth and liquidity.*

**Contingent Liabilities**

*Include in Risks section if greater than or equal to the net worth. Include in the Borrower section if less than or equal to the net worth.*

The guarantor, \_\_\_\_\_\_\_, reported contingent liabilities of $\_\_\_\_\_\_. The contingent liabilities are for \_\_\_\_. *Please describe the contingent liabilities as well as provide details on why these liabilities are unlikely to significantly impact the guarantor’s net worth and liquidity, ability to manage the property, or ability to continue operating as this loan’s guarantor. These liabilities mature between year and year. Has the guarantor taken any steps to mitigate the risk from these liabilities? If so, please include.*

**Recourse Debts**

*Include in Risks section if greater than or equal to the net worth. Include in the Borrower section if less than or equal to the net worth.*

The guarantor, \_\_\_\_\_\_, reported recourse debt on \_\_\_ properties totaling $\_\_\_\_\_. *Please describe the recourse debt as well as provide details on why these debts are unlikely to significantly impact the guarantor’s net worth, liquidity, or ability to effectively manage the property.* These properties are performing well with DSCRs ranging from \_.\_\_x to \_.\_\_x and LTVs ranging from \_\_% to \_\_%. These debts mature between year and year.  
*Has the guarantor taken any steps to mitigate the risk from these debts? If so, please include.*

**Highly Syndicated Borrower Structure**

The controlling sponsor(s) [will retain a collective ownership of \_\_%/is contributing $\_\_\_\_ of cash equity to the transaction]. This risk is mitigated by the controlling sponsor [having XX years of experience leading investments with syndicated equity investors/currently holding interests in XX transactions with similarly syndicated equity structures/having extensive experience in the subject’s market/experienced [third-party/borrower-affiliated] property management that currently manages \_\_ units in the subject’s market/ as well as a \_\_\_% underwritten LTV with an amortizing DSCR of \_.\_\_ x based on an underwritten NOI that is \_\_\_ % less than T-12 ending \_\_/\_\_/\_\_].

**Foreign Guarantors**

The guarantor for this transaction, \_\_\_\_, is a \_\_\_\_ [name of foreign nation] citizen. *Mitigate with long term ownership, any other sponsors that are local, previous experience owning real estate in the subject’s market, or an experienced local third-party management company. If the guarantor is from another country and has real estate experience there, list that as well.*

**Owner-Occupied Unit**

*Residential Unit:* The guarantor, \_\_\_\_\_, lives on-site in unit \_\_\_\_. *Describe if the guarantor lives on site to manage the property and/or provide maintenance services.* The guarantor’s rent is fully subsidized. The guarantor’s rent was included in the GPR at the current market rent and deducted from expenses as an Employee Unit under Payroll expenses.

*Commercial Unit:* The guarantor, \_\_\_\_\_, owns [firm’s name], which occupies \_\_\_ sf commercial space at the property. The contract rate of $\_\_\_\_/SF for the unit is [greater than/less than/equal to] the appraisers concluded market rent of $\_\_\_\_/SF. If the owner-occupied commercial unit were to become vacant, the loan’s resulting DSCR would be \_\_\_\_x. The commercial income from the owner-occupied unit has been verified and has been [included in/excluded from] the property’s underwritten income.

**No Carve Out/Warm Body Guarantor**

The subject loan does not have a [carveout/warm body] guarantor. This is mitigated by conservative loan economics of \_\_\_x DSCR and \_\_\_% LTV. In addition, the borrower has $\_\_\_\_\_cash equity in the transaction and has no history of credit issues [if applicable] or bankruptcy. In addition, the property is in good condition and a clean Environmental Database Search was received during due diligence.

**Underwriting**

**Underwritten Collections Above T-3/Rent Roll**

*If above T-3 (but below rent roll):* The property’s underwritten monthly collections of $\_\_\_ is greater than the T-3 ending \_\_/\_\_/\_\_. Underwritten collections are, however, supported by the rent roll dated \_\_/\_\_/\_\_. *Justify why we expect higher collections. Renovations (include premiums)? Improving market conditions (include Reis data)? New management?*

*If above Rent Roll:* The property’s underwritten monthly collections of $\_\_\_ is greater than the rent roll dated \_\_/\_\_/\_\_. *Justify why we expect higher collections. Renovations (include premiums)? Improving market conditions (include Reis data)? New management?*

**High Historical Vacancy**

The property reported an average vacancy rate of \_\_.\_\_% in 20XX, \_\_.\_\_ in 20XX, \_\_.\_\_ in 20XX, and \_\_.\_\_ over the T-12 ending \_\_/\_\_/\_\_\_\_.

*If due to renovations:* The property was under renovation from \_\_\_ to \_\_\_, which was the main driver of increased vacancy. Renovations were completed in [month, year]. The property was \_\_% vacant as of the \_\_/\_\_/\_\_ rent roll.

*For acquisitions with experienced sponsor/management:* Occupancy suffered under previous ownership but is expected to improve upon acquisition. The guarantor, \_\_\_\_, is an experienced real estate investor and provided a schedule real estate owned dated \_\_/\_\_/\_\_ with [list properties types] that were performing at a weighted average LTV and DSCR of \_\_.\_% and \_.\_\_x, respectively. The properties reported an average occupancy of \_\_%. In addition, the property has been managed by [management company] since acquisition. [Management company] is an experienced [third party/borrower controlled] management property that has been operating since [year] and manages \_\_\_ total multifamily units with \_\_\_ located in the subject’s MSA.

*In any instance, include Reis vacancy stats if vacancy in the submarket is anticipated to improve.*

**Commercial Income Greater than 25% of NRI**

The subject’s income from the # commercial units is greater than 25% of the total NRI. This risk is mitigated by the fact that [*list mitigants such as leases expiring after the term of the loan and long-term tenants with a proven track record*]. Additionally, the loan was conservatively underwritten as the EGI is \_\_% less than the T-12 ending \_\_/\_\_/\_\_ and the Total Expenses are \_\_% greater than the T-12 ending \_\_/\_\_/\_\_/. The NOI is \_\_% less than the T-12 ending \_\_/\_\_/\_\_ and the interest only DSCR is \_.\_\_x and the amortizing DSCR is \_.\_\_x.

**In-Place Rents Above Market/Comparables**

The subject’s average rent of $\_\_\_\_ is \_\_% above the Reis submarket average [and/or] falls outside of the range of rent comparables provided by the appraiser, which range from $\_\_\_ to $\_\_\_. The subject’s underwritten NRI was \_\_% below the actual T-12, \_\_% below the 20XX YE statement, and \_\_% below the appraisal.

*If due to unit size:* The subject’s increased rents are primarily due to the larger unit size of the subject. The subject has an average unit size of \_\_\_ sf, which is \_\_% larger than the Reis quarter/year submarket average of \_\_\_ sf.

*If due to unit mix (high amount of 3BR and 4BR units):* The subject’s increased rents are primarily due to unit mix. The subject has [no/minimal] studio/1BR/2BR units which makes the average rent appear inflated. The property’s average rent for 3BR/4BR units is $\_\_\_, compared to the Reis submarket average for 3BR/4BR units of $\_\_\_.

*If due to new construction/recent renovations:* The property’s excellent physical condition is the primary driver of higher rent levels. The property was [recently constructed/renovated] in \_\_\_. The property’s average rent of $\_\_\_ is in line with the Reis quarter/year submarket average of $\_\_\_ for [newly constructed properties/properties of similar vintage].

*If any rents are above the appraiser’s concluded rents for a specific unit type, please include details on how the appraiser arrived at their conclusion, and why the property’s rents are above the appraisal’s concluded rents for that unit type.*

**Recently Stabilized**

The subject was recently [constructed/renovated], reaching completion in [month, year] and stabilization in [month, year]. As a result, historical operating statements are not [available/able to accurately reflect operations]. *Defend how the I&E was underwritten. Appraiser’s estimates, Freddie expense comps, borrower/property management expense comps, Reis data, etc.*

**Declining Collections Trend**

The property has experienced a declining collections trend. The property’s NRI has decreased \_\_\_% between the YE \_\_\_\_ operating statement and the T-12 ending \_\_/\_\_/\_\_. While rents achieved have fallen to maintain occupancy, the overall net rental income has been conservatively underwritten \_\_\_% below the T-12 ending \_\_/\_\_/\_\_ to account for potential future decreases. This risk is further mitigated by *provide specific, quantifiable support such as borrower's market experience, market tightening supported by Reis, management plans to increase rents/occupancy, etc.*

**Volatile Collections**

The property has experienced volatile collections [over the [past \_ years/the T-12 ending \_\_/\_\_/\_\_\_]. The property’s NRI decreased \_\_% between the [T-3 ending \_\_/\_\_/\_\_\_] and [T-3 ending \_\_/\_\_/\_\_\_]. *Include explanation/drivers of volatility such as prepaid rents, lump sum subsidy payments, unit renovations, high turnover, etc.* The overall net rental income has been conservatively underwritten \_\_% below the T-12 ending \_\_/\_\_/\_\_\_\_. This risk is further mitigated by \_\_\_\_. *Provide specific support such as the borrower’s market experience, market tightening support by REIS/Costar/other market data, management plans to increase rents/occupancy, or quantifiable collections support.*

*Is the volatility due to cash accounting? If so, it may not be necessary to mention. Please use your best discretion to determine whether the volatility is reflective of actual difficulties/issues at the property, or whether it matches the natural cycle of cash accounting.*

**Legal**

**Regulatory Agreement/Rent Restrictions**

The subject currently operates under a Regulatory Agreement with \_\_\_\_\_\_\_\_\_ dated \_\_\_\_\_\_, relating to \_\_\_\_\_\_. The Agreement requires that at least \_\_\_% of the total units at the property be rented to households whose annual income does not exceed \_\_% of the area median income (“AMI”). Since the initial \_\_\_ year period has expired, the Agreement will expire on \_\_\_\_\_\_. The property’s average rent of $\_\_\_/unit was [below/consistent with] the Reis [quarter/year] submarket average rent of $\_\_\_/unit. The rents were underwritten to the restricted rents, and the property is operating at a \_.\_\_x DSCR. The restricted units are of comparable size and quality as market rate units. *Describe whether tenants will be able to stay at the property for subsidized rate once the property converts to market rate.*

**Ground Lease**

*Borrower owns land:* There is a ground lease in place. The borrower is the ground lessee. This risk is mitigated by the fact that the ground lessors are owned by the guarantor, \_\_\_\_\_\_. The bifurcated ownership structure for the land and improvements was due to \_\_\_\_\_\_\_. The ground lease rent is currently $\_\_\_\_ per month and expires on \_\_/\_\_/\_\_.

*Borrower does not own land:* There is a ground lease in place. The borrower is the ground lessee. The ground lease rent is currently $\_\_\_\_ per month and expires on \_\_/\_\_/\_\_. This risk is mitigated by the fact that ground lease expires approximately \_\_ years after maturity. *Discuss any extension options. Note if ground lease is subordinate to the mortgage and if the ground lessor signed on the mortgage. Does DSCR account for ground lease?*

**Units Without Certificate of Occupancy**

There are \_\_\_\_\_ unit[s] at the subject without a certificate of occupancy. *Explain why these units do not have a certificate of occupancy and when they are expected to have a C of O. Note the cost and timeline for getting the C of O. Are they included in unit count? Is their rental income underwritten? Any life/safety issues noted?*

**Unpermitted Units**

There is/are \_\_ unpermitted unit(s) located at the property. *Note whether the borrower plans to bring the unit to conforming status (i.e.* the borrower was exploring the possibility of renovating this unit to make it conforming with the City of \_\_\_\_; however, it is currently in shell condition and is not marketed for rent.) The estimated cost to make the unit conforming is $\_\_\_\_\_. The unit was excluded from the underwriting. The unit count of \_\_ units excludes the non-conforming unit(s).

*Include any further details why the borrower did not previously take steps to make this unit permitted/conforming.*

**Condominium Ownership Structure**

The property was originally built as a condominium complex and remained a condominium at the time of the acquisition. All the condominium units are owned by the borrower and are operated as one apartment complex. *Is there a condominium association? If so, note borrower’s control due to 100% ownership*. Freddie Mac's Loan Agreement secures all condominium units as collateral for the loan and prevents the sponsors from selling the condominium units on an individual basis.

**Corporate and/or Master Lease**

The property has [a master lease/corporate leases] for \_\_ units (list how many 1BR, 2BR, 3BR etc.). The units are leased to [tenant] from \_\_/\_\_/\_\_ to \_\_/\_\_/\_\_ and are used for [describe purpose of master/corporate lease]. The borrower can terminate the lease at the end of the term.

*If partial:* The rental rates of these units are [higher/lower/the same as] other units at the subject.

*If entire property:* The property’s average rent of $\_\_\_/unit is [consistent with/lower than] the [Reis \_Q18 submarket average/appraiser’s rent comparable average] of $\_\_\_/unit.

*Discuss any other relevant details of the lease and justify the underwritten rent levels and vacancy. Describe any renewal options.*

**Market**

**High Submarket Vacancy Rate**

*Note: only include if >8% vacancy in the submarket*

Per REIS quarter/year, the submarket vacancy rate is \_\_\_%. For properties of similar vintage as the subject, the average vacancy rate is \_\_\_%. The submarket vacancy is projected to remain below \_\_\_% over the next \_\_ years. The property has outperformed the submarket vacancy rate for the past \_\_\_\_ months/years, and as of the rent roll dated \_\_/\_\_/\_\_, the property was \_\_\_% occupied. The new Class A properties, which represent most of the new supply, were not expected to directly compete with the subject due to its lack of amenities and more affordable rent levels. The property’s \_\_\_-bedroom rents were on average \_.\_% below Reis [quarter/year] reported \_\_\_-bedroom rents. This risk is further mitigated by the underwritten vacancy rate of \_\_\_%, which is \_\_\_% greater than the \_\_/\_\_/\_\_ rent roll and \_\_\_% greater than the T-12 ending \_\_/\_\_/\_\_.

**New Supply**

Per [REIS quarter year /the appraisal], approximately \_\_\_\_\_ units (\_\_\_% of existing inventory) [were added to the submarket/market in the last \_\_\_ months /are scheduled for delivery within the next five years and the estimated net total absorption will be \_\_\_\_\_ units]. Due to the [new construction/superior asset class/superior amenitization/higher rents], the newly constructed properties are not expected to compete with the subject property. The average submarket rent for newly built properties is $\_\_\_/unit, compared to $\_\_\_/unit for similar vintage properties (XXXX-XXXX) to the subject. Additionally, the average submarket vacancy for newly built properties is \_\_.\_%, compared to \_\_.\_% for similar vintage properties (XXXX-XXXX) to the subject, and has remained below \_\_.\_% for the past \_\_\_ quarters. The property has outperformed the submarket in terms of occupancy as its vacancy was \_\_% as of \_\_/\_\_/\_\_\_\_ whereas the submarket vacancy was \_\_% as of \_Q \_\_\_\_. Further, an overall vacancy factor of \_.\_% was underwritten, which was higher than the appraiser’s estimate of \_.\_%, the \_\_/\_\_/\_\_ rent roll vacancy of \_.\_%, and the overall submarket vacancy rate of \_.\_% for properties of a similar vintage.

**Tertiary Market**

The property is located in city, state which is \_\_\_\_ miles direction of major city. As of year, the city has a population of \_\_\_\_\_\_. Major employers in the area include \_\_\_\_\_\_ (distance and direction), which provide a stable employment base. [Include other demand generators]. The property has excellent access to list additional demand generators. *Discuss access to public transportation, and planned improvements to local infrastructure and employer investment in area—discuss major economic drivers/growth potential*. *Note mitigants such as: lower multifamily inventory in area, stable operations, sponsorship investment in the area and what % of the local population can afford rent at the subject property, if significant.*

**Crime Concerns**

*Crime at subject:* \_\_\_\_\_\_\_\_\_ [describe the crime(s) i.e. *a shooting, a stabbing, a burglary, an aggravated assault* etc.] occurred at the property on \_\_/\_\_/\_\_\_. The [insert crime(s)] was an isolated incident(s) and the tenant(s) involved in the crime(s) have been evicted from the property. The borrower plans to *list security measures that will be taken to prevent further issues (i.e. install a security camera, add a secured access gate, hire a security officer, adding lights, trimming bushes, distance to police station etc.).* Despite this incident(s), occupancy remains stable at the property as it has remained above \_\_% since the time of the incident.

**Miscellaneous**

**Controversial Commercial Tenant**

[A/The] commercial unit at the property is currently leased to [tenant’s name], which is a [type of tenant]. The lease began on \_\_/\_\_/\_\_ and ends on \_\_/\_\_/\_\_. The current monthly rent is $\_\_\_\_/month, which equates to $\_\_/sf/year. *Discuss any rent escalations as well as unusual rent provisions related to the controversial nature of the tenant. For example, a firearms dealer doesn’t sell ammunition to prevent any collateral damage in the event of a fire.*

**New to Market Property Management**

The subject is the [first/only] property in the \_\_\_\_\_ MSA managed by [management company]. [Management Company] currently manages \_\_\_ units in [list states]. *Provide any additional details about company experience. Are they planning to increase their presence in the subject’s market beyond the subject property? Will there be an on-site manager? If borrower-controlled, mention borrower’s portfolio LTV/DSCR if supporting.*

**Commercial Lease Expiring Within 6 Months**

The property has a commercial unit occupied by [commercial tenant]. The lease began on \_\_/\_\_/\_\_ and expires on \_\_/\_\_/\_\_. The tenant pays $\_\_\_ per month (\_\_% of GPR). The space occupies \_\_\_ SF, representing approximately \_\_% of total NRA. The tenant has leased the space on a \_\_\_\_ [NNN, gross, etc.] basis and pays [list any utilities and expenses paid by tenant]. The tenant has \_\_\_ [describe option to renew if there are any] options to renew. Although the lease expires \_\_/\_\_/\_\_\_\_, the tenant has renewed their lease by taking the \_\_\_ option. *If tenant has not renewed, describe whether the borrower expects them to renew or if the borrower will offer additional renewal options if there are none left. If the tenant has indicated that they will not renew, describe the borrowers plan to fill the space with a new tenant.*

**Previous Foreclosure at Subject Property**

The subject property was foreclosed on \_\_/\_\_/\_\_ because of issues related to the prior owner’s operation and management of the property. [*Explain in detail what issues the prior owner had i.e. not qualifying tenants and having too many evictions, illegal activity, unfavorable terms/interest rate on prior loan, maintenance issues, etc.*] The property is currently stabilized with a DSCR and LTV of \_.\_\_x and \_\_.\_% as of the T-12 ending \_\_/\_\_/\_\_. The sponsor plans to correct the prior issues at the property by \_\_ [*Explain how borrower will avoid repeating the issues that led to foreclosure i.e. local, experienced management, better tenant screening, planned capex, etc.*]. The market has historically been stable with the vacancy being below \_\_.\_% from 20XX to 20XX and rent increasing by \_\_.\_% over the same time period. Per REIS \_Q 18, the submarket vacancy was \_\_.\_% and the submarket vacancy for properties of a similar vintage was \_\_.\_%. Vacancy is projected to remain below \_\_.\_%. Average rents were $\_,\_\_\_ and were expected to grow by an average of \_\_.\_% annually over the next five years. The submarket is projected to have \_\_ units added to the market over the next five years with \_\_ units absorbed.

*If the loan was conservatively underwritten (i.e. low LTV, high DSCR, no I/O, or NOI significantly lower than T-12), please also include this information here.*

**No Written Leases**

As of the site inspection dated \_\_/\_\_/\_\_, \_\_ out of \_\_ units at the property did not have written leases. *Include any information on long term tenants/any details from site inspection that helps mitigate this concern as well as any conditions of closing that require borrower to convert to paper leases. If oral leases are common in the subject market, please include relevant details. Did counsel comment on the enforceability of oral leases in the subject market? If so, include.*

**Property Overview**

*If NOT discussed in Strengths/Weaknesses, discuss the following in the Property section:*

**Renovations**

Recently completed capital improvements include list recent projects, at an estimated cost of $\_\_\_\_\_\_. The borrower plans to invest $\_\_\_\_\_\_ in capital improvements including list items, etc. over the next 12 months. *If applicable, describe % of renovated units and dollar amount of rent premiums achieved/anticipated. Confirm residents will not be displaced and that there will not be down units.*

**Amenities**

Common area amenities include list amenities. Unit amenities include list amenities*.* ***Only discuss amenities that are not “run-of-the-mill” (i.e. refrigerators and stoves).***

**Shared Access/Amenities/Easements**

*If there is any shared access or easement agreement concerning the amenities, describe here. [Include: Parties relevant to easement, date, terms of agreement (if shared amenities – proximity to property? Related borrower? Cost to borrower passed to tenants?). Which party responsible for maintenance and upkeep? Share of costs (if any)? Remediation options if borrower/other party fail to pay/breaches agreement? Is it perpetual? Does it run with the land? Can the property operate without the agreement? Was a carve-out required?*

**Non-Profit Tenant Concentration**

X out of X units (XX%) are leased to \_\_\_\_\_\_\_, a non-profit organization that offers supportive housing programs to \_\_\_\_\_\_\_. The organization was founded in \_\_\_\_ and has been leasing units at the property for \_\_ years.

*Additional factors to consider: Does the organization receive funding from any local public agencies or departments? Is the organization current on its rent? If the organization did not renew its leases, how would the property be impacted? Were any steps taken to mitigate the risk of non-payment? Are the leases staggered? Is the program tenant based or is it through a partnership with the property? Describe the organizations history of leasing units at the property? Has the organization ever been delinquent for a meaningful amount of time? What are the sponsor’s plans in if the organization decides not to renew its leases?*

**Non-Conforming Zoning**

The property is zoned \_\_\_\_\_ and is considered legal non-conforming due to the following*: briefly outline deficiencies as described in the appraisal; include applicable information from the Reconstruction Clause.* Building law and ordinance insurance is required.

**Commercial Space**

[Insert tenant name] pays $\_\_\_ per month (\_\_\_% of GPR) with rent escalations of \_\_\_% annually. The tenant has leased the space on a \_\_\_\_ basis and pays [list any utilities and expenses paid by tenant]. The tenant has \_\_\_ option to renew. *Describe any unique situations i.e. long-term tenant, new tenant with build-out costs etc.* *If TI/LC’s are underwritten, describe assumptions. Is the commercial tenant currently open? Has the commercial tenant remained current on its rent during the COVID-19 pandemic? If not, please include details on how to COVID-19 pandemic impacted the commercial tenant, and whether the sponsor and commercial tenant have worked on a payment plan to cover delinquent rent. Please include any other COVID-19 related details as necessary.*

**Section 8 Tenant Concentration**

*Only include as weakness if greater than 50%.*

\_\_\_% of the subject's tenants receive Section 8 vouchers. The units occupied by Section 8 voucher tenants are in good condition and have similar finishes as other units at the subject. Because the Section 8 vouchers are guaranteed from HUD monthly, having these tenants rent units provides certainty of collections.

**Month-to-Month Tenant Concentration**

*Only include as weakness if greater than 10%.*

\_\_ out of \_\_ total units at the property are leased on a month-to-month basis. These leases began as \_\_ month leases and converted to month-to-month leases after the initial lease term ended. Month-to-month leases are common in the subject’s market. Even though \_\_ units are leased on a month-to-month basis, \_\_ tenants have been residents at the property for over \_\_\_ years. The property has outperformed the submarket in terms of occupancy as its vacancy was \_\_% as of \_\_/\_\_/\_\_\_\_ whereas the submarket vacancy was \_\_% as of \_Q \_\_\_\_. In addition, the Loan Agreement dated \_\_/\_\_/\_\_\_\_ states that new leases must be for initial terms of at least six months to two years.

**Borrower Section**

*Only include information that is not listed in strengths/weaknesses.*

**Maturing Loans**

*Include this in Borrower section if the maturing loans are maturing within 12 months, performing above a 1.00x, are below an 80% LTV, and have a loan balance less than the borrower’s net worth.*

[Guarantor’s Name] reported a schedule of real estate owned with \_\_\_ loan[s] maturing within 12 months. The combined unpaid balance of this/these loan[s] is $\_\_\_. These loans had DSCRs ranging from \_.\_\_x to \_.\_\_x and LTVs ranging from \_\_% to \_\_%. Based on these metrics, these loans are likely to be eligible for finance and present little to no maturity risk.

**Borrower SREO Underperforming Loans**

*Include this in Borrower section if the loans are performing below a 1.00x, are above an 80% LTV, and have a loan balance less than the borrower’s net worth.*

The guarantor, [Guarantor’s name] reported \_\_\_ properties performing below a 1.00x DSCR. One property is a multifamily asset with \_\_ units with a DSCR of \_.\_\_x and an LTV of \_\_%. *Describe why the loan is underperforming. Mitigate these concerns by stating how the borrower plans to bring the property back to performing status. Also state whether the remainder of the borrower’s portfolio is strong enough to support the underperforming property until it begins to perform again. Use the borrower’s experience and/or substantial financial strength as a mitigant as well.*

**Multi Asset Entity**

The borrower, \_\_\_\_\_\_\_, is a Multiple Asset Entity (MAE)*.* [The borrower is operated as a MAE because of \_\_\_ and hasn’t been converted to a Single Asset Entity (SAE) due to \_\_\_\_. *If the borrower is operated as a MAE due to the cost of conversion, please include the following:* The cost of converting the borrower from a MAE to a SAE is $\_\_\_\_. *Other possible reasons could include legal concerns, a lawsuit/foreclosure, environmental risk, etc. Since a risk at another property under the MAE automatically impacts the subject property, these risks must be property explained and mitigated.* The borrower reports ownership in \_\_\_\_ properties including the subject and \_\_\_\_\_\_\_ in the city, state market. These properties are performing at a weighted average DSCR and LTV of \_.\_\_x and \_\_.\_% LTV, respectively. The borrowing entity is a restricted MAE, preventing the acquisition of any additional real estate assets.

**Related Guarantors/Sponsors**

*If the guarantors/sponsors are related note if a joint financial statement was submitted. If a joint financial statement was submitted, make sure that the joint net worth and liquidity is not attributed to both guarantors/sponsors individually.*

**Other Experience**

In addition to his experience owning and operating multifamily and office properties in market, \_\_\_\_ [guarantor] has also held various positions at large real estate firms such as \_\_\_\_\_\_ where he was responsible for \_\_\_\_\_.

**Recourse**

*Note: If loan is full or % recourse, this should also be used as a mitigant in the Risks.*

Due to concerns with the borrower [describe any concerns with borrower related to prior credit issues, defaulted loans, etc.] and the subject [describe any concerns with the subject such as condition or the market], the loan is full/\_\_% recourse to the borrower.

**Property Management**

*Only use if not listed in strengths/risks*

**Owner-Operated/Third Party Management Firm**

The property is managed by \_\_\_\_\_\_, a [borrower- related/third party]. Management company name was established in \_\_\_\_\_\_ and currently manages \_\_\_\_\_\_ multifamily (or student) properties containing \_\_\_\_\_\_units in [markets/region/nationwide] with \_\_\_\_\_\_ units under management locally. *If applicable, discuss if the management company has specific experience managing small properties.*

**Self-Managed**

The subject is self-managed by the guarantor, \_\_\_\_\_\_\_. [Guarantor] resides \_\_\_ miles from the subject and has successfully managed the subject for \_\_ years. The guarantor also self manages \_\_\_ multifamily properties with \_\_ units in the local market. His management portfolio has an average DSCR and LTV of \_.\_\_x and \_\_%, respectively.

**Submarket**

*First paragraph: Discuss the subject’s location within the submarket and market, noting any major transportation routes and public transportation stops, retail, and/or entertainment centers.*

*Example:* The subject is located in the \_\_\_\_\_\_\_ submarket of \_\_\_\_\_\_, 3.5 miles north of the CBD. The area surrounding the subject market consists mostly of similar multifamily properties, parks, and healthcare facilities. Directly to the north of the property is Washington Park, which is the city of Albany’s premier park and is home to many festivals for the local area. To the south of the property Albany Medical College. The property is otherwise surrounded by residential uses. The property is located on Madison Avenue, which leads directly to downtown Albany. 0.4 miles to the east along Madison Avenue there are a number of restaurants, bars, and casual eateries that provide entertainment to the subject’s local neighborhood. The property is also in close proximity to Interstate 787, which is 2 miles to the east. I-787 connects with Interstate 87, which leads to New York City to the south and Saratoga Springs to the north.

*Second Paragraph: Discuss any major demand drivers and large employers located near the subject.*

*Example:* The property benefits from its proximity to major employers located in New York including Northwell Health (7.9 miles south), JPMorgan Chase & Co. (8.1 miles south), Mount Sinai Medical Center (6 miles south), and Citibank NA (8.0 miles south).

*Third Paragraph: Describe submarket performance and outlook using REIS data.*

Per REIS [Quarter/Year], the average rent and vacancy in the \_\_\_\_\_\_\_\_ submarket were $\_\_\_\_/unit and \_\_\_%, respectively. Asking rent and vacancy for properties of the similar vintage as the subject were $\_\_\_\_/unit and \_\_\_%, respectively. Over the next five years, asking rent is projected to increase by \_\_% on average annually. Over the same time period, vacancy is projected to remain at or below \_\_\_%. REIS estimates completion of \_\_\_ units from [year] to [year] and absorption of \_\_\_ units over the same time period.

**Appraisal**

*Include only if applicable.*

**Purchase Price Below Appraised Value**

The borrower acquired the property in [year] for a purchase price of $\_\_\_\_, which was \_\_% below the appraised value of $\_\_\_\_. *Use appraiser’s commentary to explain the difference in values.*

**Tax Abatement**

The subject currently benefits from a [name type of abatement]. There are \_\_\_ years remaining in the abatement. The appraiser underwrote full taxes, but also concluded a Net Present Value of $\_\_\_\_ ($\_\_\_/unit) for the tax abatement that is reflected in the property’s “As Is” value of $\_\_\_\_.

**Additional Valuations**

In addition to the “As Is” value of $\_\_\_\_, the appraiser provided an [additional/hypothetical] “As [stabilized/renovated/etc.] value of $\_\_\_\_. *Discuss the circumstances of this valuation, how it differs from “As Is”, and which valuation was used to size loan.*

**Comp Set Does Not Support Valuation**

The appraiser’s comp set included sales comps with cap rates above \_\_% and price/units above $\_\_\_/unit with a cap rate range of \_\_% to \_\_% and a price/unit range of $\_\_/unit to $\_\_/unit. The cap rates and price/units are justified because [*list reasons for high cap rates or price/units such as extremely desirable market, downtown location, excellent amenities at property level and/or unit-level, unique product in market, market demand/supply imbalance, property renovations, comps in a major market but in an undesirable part of down*]. The property was considered most similar to name of comp which had a \_\_% cap rate and a $\_\_\_\_ price/unit. The price/unit was adjusted to $\_\_\_\_\_ because [*list reasons why price/unit was adjusted*]. This is line with the property’s appraised price/unit of $\_\_\_\_\_.

**Non-Local Sales Comp**

The sales comp, name of property, was outside of the subject’s market as it was \_\_ miles from the subject; however, it was included in the comp set because of [*include reasons why appraiser used the comp including limited sales comps in the market, tenant concentration, affordable component, amenity package, etc.*]. The sales comp was adjusted by \_\_% to $\_\_\_\_\_/unit because of [*include reasons for any adjustments*].

**Extraordinary Assumptions**

*Discuss any extraordinary assumptions made by the appraiser, as well as the impact the assumptions would have on the valuation. Use your best discretion to determine whether the assumption is actually a unique and extraordinary assumption, or if it is frequently seen on many different transactions.*

**Third Party Reports**

**Code Violations**

*Include in weaknesses if two or more violations* *per unit.*

At the time of underwriting, the subject had \_\_\_\_ building code violations dated between \_\_\_ and \_\_\_.

*For NYC properties:* There was \_\_ open DOB violation(s), \_\_ open HPD violation(s), and \_\_ open ECB violation(s). \_\_violations were Class A, \_\_violations were Class B, and \_\_ violations were Class C.

The violations occurred between year and year, \_\_ of which were not recorded when the borrower owned the property. The violations included [list physical issues behind violations]. Curing the physical issues and clearing the code violations was included as a Priority Repair with a cost to cure of $\_\_\_\_. The Priority Repairs are due for completion 12 months after closing and are full recourse to the borrower.

**Seismic Report**

The subject is located in an elevated seismic hazard zone with a PGA o\_\_\_g. A Seismic Risk Assessment was completed. The engineer concluded that the property has an SEL of \_\_%; therefore, earthquake insurance was not required/is in place.

*If property needs retrofit:* The property has a PGA of \_.\_\_g and has \_\_ (*tuck under parking spots, ground floor commercial/retail units, unreinforced masonry*), was \_\_ (*built prior to 1980, built prior to 1950 and has wood-frame construction*), and is \_\_\_ (*required to undergo a seismic retrofit per the local or state authority*). The Seismic Risk Assessment Report reflected an estimated Scenario Expected Loss (SEL) of \_\_%, and there was a building stability concern. The estimated cost to retrofit the subject property was $\_\_\_\_\_\_. The borrower paid for one year of earthquake insurance at loan closing. Additionally, the retrofit was required to be completed within one year of loan closing, and an escrow of $\_\_\_\_\_ (\_\_\_% of the estimated cost to cure) was put into place. A new seismic report indicating a SEL of 20% or less with no stability concerns was to be executed upon the completion of the seismic retrofit.

**Stab-lok Electrical Panels**

Stab-lok electrical panels were noted at the subject property. No issues with the Stab-lok panels were reported or observed at the time of the inspection. The inspecting engineer recommends monitoring the panel throughout the term and replacing the electrical panels if any issues arise. Any losses related to the Stab-lok electrical panels malfunctioning are full recourse to the borrowers.

**Galvanized/Polybutylene Piping**

The subject property was observed with galvanized/polybutylene water piping. No history of issues was reported by owners or management.

*If no further testing/repairs:* The engineer recommends monitoring piping and managing the system in place.

*If further testing/repairs required:* Per the Engineer, further testing/repairs is required and was included as a Priority Repair at an estimated cost of $\_\_\_. Priority Repairs are due within 12 months of closing and are full recourse to the borrower.

*Consider underwriting an additional $50/unit in replacement reserves if a significant amount of galvanized/polybutylene piping is in place.*

**Sub-60 Amps**

Sub60-amp electrical service was reported at the subject.

*If no further testing/repairs:* A load analysis was conducted on \_\_/\_\_/\_\_\_\_, and the service was deemed adequate to support the calculated electrical demand load. No further action was required.

*If further testing/repairs required:* Per the Engineer, further testing/repairs is required and was included as a Priority Repair at an estimated cost of $\_\_\_. Priority Repairs are due within 12 months of closing and are full recourse to the borrower.

**PCB’s**

A Polychlorinated Biphenyl (PCB) O&M plan was required by the engineer and has been prepared for the property. No repairs were required.

*If further testing/repairs required:* Per the Engineer, further testing/repairs is required and was included as a Priority Repair at an estimated cost of $\_\_\_. Priority Repairs are due within 12 months of closing and are full recourse to the borrower.

**T-111/Fiberboard Siding**

T-111/Fiberboard siding was observed at the subject property.

*If no further testing/repairs:* The T-111/Fiberboard siding appeared to be in good condition with no ground contact. The engineer recommended the siding be monitored and maintained in place.

*If further testing/repairs required:* Per the Engineer, further testing/repairs is required and was included as a Priority Repair at an estimated cost of $\_\_\_. Priority Repairs are due within 12 months of closing and are full recourse to the borrower.

**Storage Tanks**

[One or more] above ground/underground storage tank[s] was/were observed at the subject property.

*If no further testing/repairs:* No evidence of leaks or other concerns were noted. An O&M plan was required by the engineer and has been prepared for the property. No further action was required.

*If further testing/repairs required:* Per the Engineer, further testing/repairs is required and was included as a Priority Repair at an estimated cost of $\_\_\_. Priority Repairs are due within 12 months of closing and are full recourse to the borrower.

**EIFS (Exterior Foam Insulation System)**

EIFS (exterior foam insulation system) was noted at the subject property.

*If no further testing/repairs:* No deficiencies were noted with the EIFS or the seals between the panels, and the system appears to have been adequately installed. No further action was recommended. *Include if the engineer recommended maintenance to the EIFS or seals.*

*If further testing/repairs required:* Per the Engineer, further testing/repairs is required and was included as a Priority Repair at an estimated cost of $\_\_\_. Priority Repairs are due within 12 months of closing and are full recourse to the borrower.

**Aluminum Branch Wiring**

Management reported aluminum branch wiring with no retrofit. A retrofit of all branch wiring terminations was recommended by the engineer as a Priority Repair at a cost of $\_\_\_\_\_. Priority Repairs are due within 12 months of closing and are full recourse to the borrower.

**Edison Base/T-type Fuses**

Edison base/T-type fuses were noted at the subject property. Management reported that there have not been any fires at the property due to these fuses. To prevent any future issues with these fuses, the engineer recommended replacing these with S-type fuses as a Priority Repair at an estimated cost of $\_\_\_. Priority Repairs are due within 12 months of closing and are full recourse to the borrower.

**Historical Environmental Issues**

The site was historically used for \_\_\_\_\_ (agricultural, gas station, dry cleaners, etc.) purposes with a potential that chemicals such as \_\_\_\_\_\_\_\_ were used on site.

*If no further testing/repairs:* Per the Engineer, based on the site improvements, no further action related to the former \_\_\_\_ use of the property appears warranted.

*If further testing required:* Per the Engineer, \_\_\_\_\_ further testing is required and was included as a Priority Repair at an estimated cost of $\_\_\_. Priority Repairs are due within 12 months of closing and are full recourse to the borrower.

**FRT Plywood**

FRT Plywood exterior siding was noted at the property.

*If no further testing/repairs:* The engineer determined that the FRT Plywood was in good condition and could be managed in place.

*If no further testing required:* Per the Engineer, based on the site improvements, no further action related to the former \_\_\_\_ use of the property appears warranted.

*If further testing/repairs required:* Per the Engineer, further testing/repairs is required and was included as a Priority Repair at an estimated cost of $\_\_\_. Priority Repairs are due within 12 months of closing and are full recourse to the borrower.

*Discuss any major issues with loan approver.*

**Soil Contamination**

Soil Contamination was noted at the property.

*If no further testing/repairs:* The engineer determined that all soil contamination issues had been resolved and that no further testing or remediation was required.

*If further testing/repairs required:* Per the Engineer, further testing/repairs is required and was included as a Priority Repair at an estimated cost of $\_\_\_. Priority Repairs are due within 12 months of closing and are full recourse to the borrower.

**Recalls**

\_\_\_\_\_\_ was noted at the property, which was recalled in year. The engineer recommended replacement of \_\_\_\_\_\_\_ as a Priority Repair at an estimated cost of $\_\_\_\_. Priority Repairs are due within 12 months of closing and are full recourse to the borrower.