Underwriting Boilerplate

November 2021

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| --- | --- | --- | --- |
| **Sections** |

|  |  |
| --- | --- |
| * [Transaction Overview](#_Transaction_Overview)
* [Escrow/Reserve Requirements Footnotes](#_Escrow/Reserve_Requirement_Footnote)
* [Supplemental Footnotes](#_Supplemental_Footnotes)
* [Transaction Strengths](#_Transaction_Strengths)
* [Transaction Risks/Mitigants](#_Transaction_Risks/Mitigants)
* [Property Overview](#_Property_Overview)
* [Property Inspection Overview](#_Property_Inspection_Overview)
* [Commercial Tenants Overview](#_Commercial_Tenants)
* [Cash Flow Footnotes – Income](#_Cash_Flow_Footnotes)
* [Cash Flow Footnotes - Expense](#_Cash_Flow_Footnotes_1)
 | * [Borrower Overview](#_Borrower_Overview)
* [Property Management Overview](#_Property_Management_Overview)
* [Appraisal Overview](#_Appraisal_Overview)
* [Sales/Rent Comparables Overview](#_Sales/Rent_Comparables_Overview)
* [Engineering Overview](#_Engineering_Overview)
* [Environmental Overview](#_Environmental_Overview)
* [Market Overview](#_Market_Analysis_Overview)
* [Submarket Overview](#_Submarket/Neighborhood_Analysis_Ove)
* [Top MSA Template Language](#_Top_MSA_Template)
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| **Overview** | The intent of this document is to assist with writing brief narratives. These write-ups can serve as templates for narrative portions of the loan brief and indicate the types of information that Freddie Mac Underwriting looks for during the underwriting process.***Please keep in mind – Each loan is unique.*** The language in this template does not cover every situation that may arise during the underwriting process. More information may be needed to effectively to tell the full story of the loan. Provide additional information as necessary to communicate material information, mitigate transactional risks, and to provide a comprehensive and complete overview of the loan. If you are unsure of whether to include information not covered in this template that may be material to the loan, please err on the side of caution and provide the additional narrative. |
| **Text Formats** | * Plain Text = Standard language to be used consistently in every narrative
* Underlined Text = Language to be specified for each transaction
* *Italic Text* = General language guidance for subjective portions of the narrative
* [Bracketed Text] = Alternative language for specific transactions
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| **Note** | * For any student properties that are rented by the bed or bedroom - replace all per unit language with per bed or per bedroom language.
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# Transaction Overview

## **Tell the Investment Story**

For All Transactions – In addition to the templates below, be sure to address the investment story as part of the transaction overview. These templates represent the beginning of the conversation, and any additional relevant or unusual facts should be provided to communicate the rest of the story.

*Address unusual facts surrounding the transaction such as distressed sale, note purchase, partnership buyout, large discrepancy between purchase price and appraised value, etc.*

The subject transaction represents a [long term hold, value add, market play, etc.] for the sponsorship. *For Seniors Housing Properties: Provide the detail on the ownership history and whether this will change after funding.*

*For Manufactured Housing Communities, units should be referred to as pads or RV sites. The total unit count should equal total pads and RV sites i.e. 130-unit (125-pad and 5-RV site).*

## **Acquisition:**

Seller Name funded and Freddie Mac purchased a $\_\_\_\_\_ ($\_\_\_/unit) \_\_-year loan secured by a first lien on Property Name, a \_\_-unit, [include if applicable: Student, Rent Restricted, LIHTC, Section 8, Age Restricted, etc.], style apartment complex located in city, state. 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 Year. The borrower contributed $\_\_\_\_\_ of cash equity at the time of closing, equating to a \_\_% LTPP. The subject transaction represents a [long term hold, value add, market play, etc.] for the sponsorship.

***Please Note: List the true seller of the property, not the seller’s holding entity.***

## **Cash-Out Refi:**

Seller Name funded and Freddie Mac purchased a $\_\_\_\_\_ ($\_\_\_/unit) \_\_-year loan secured by a first lien on Property Name, a \_\_-unit, [include if applicable: Student, Rent Restricted, LIHTC, Section 8, Age Restricted, etc.], style apartment complex located in City, State. The borrower purchased/developed the property in Year [for $\_\_\_\_\_ ($\_\_\_/unit), *if available*] [and has since invested $\_\_\_\_\_ in capital improvements for a total cost basis of $\_\_\_\_\_\_\_.] This loan refinanced existing [Freddie Mac, *if applicable*] debt of $\_\_\_\_\_ The borrower cashed out $\_\_\_\_\_ as part of this transaction and has $\_\_\_\_\_ cash equity remaining in the deal (\_\_% of the total cost basis). The subject transaction represents a [long term hold, value add, market play, etc.] for the sponsorship.

***Tell the story****: If the cash is not a simple pay out, what will the proceeds go towards? Will it be invested back into the property as capex, or used 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.*

## **Cash-In Refi:**

Seller Name *(use the formal name as found in the mortgage loan application)* funded and Freddie Mac purchased a $\_\_\_\_\_ ($\_\_\_/unit) \_\_-year loan secured by a first lien on Property Name, a \_\_-unit, [include if applicable: Student, Rent Restricted, LIHTC, Section 8, Age Restricted, etc.], style apartment complex located in City, State. The borrower purchased/developed the property in Year [for $\_\_\_\_\_ ($\_\_\_/unit), *if available*] and the loan refinanced existing [Freddie Mac, *if applicable*] debt of $\_\_\_\_\_. The borrower contributed $\_\_\_\_\_ as part of this transaction and has $\_\_\_\_\_\_ cash equity remaining in the deal (\_\_% of the total cost basis). The subject transaction represents a [long term hold, value add, market play, etc.] for the sponsorship.

## **Cash-Out Refi Supplemental:**

Seller Name funded and Freddie Mac purchased a $\_\_\_\_\_ ($\_\_\_/unit) \_\_-year loan secured by a second (third, fourth, etc.] lien on Property Name, a \_\_\_ -unit garden-style [mid-rise, etc.] apartment complex located in City, State. The borrower purchased the subject in Year [for $\_\_\_\_\_ ($\_\_\_/unit), *if available*]. The existing \_.\_\_% fixed-rate [capped adjustable-rate] amortizing [interest-only] first mortgage loan was originated by Seller Name on \_\_/\_\_/\_\_. The original loan was for $\_\_\_\_\_ with a term of \_\_ years. [For RDC first mortgages, add: The loan was subsequently securitized on \_\_/\_\_/\_\_ as part of the FREMF 20\_ K\_Deal.] As of \_\_/\_\_/\_\_, the existing Freddie Mac portfolio [RDC] first mortgage #\_\_\_\_\_ has an unpaid principal balance of $\_\_\_\_\_ ($\_\_\_/unit) and a remaining term of \_\_ years. The maturity date of the Supplemental Loan is \_\_/\_\_/\_\_, which is [not] conterminous with that of the first mortgage. The borrower cashed out $\_\_\_\_\_ as part of this transaction and has $\_\_\_\_\_ cash equity remaining in the deal (\_\_% of the total cost basis).

## **Partnership Buyout (Refinance/No Title Change):**

Seller Name funded and Freddie Mac purchased a $\_\_\_\_\_ ($\_\_\_/unit) \_\_-year loan secured by a first lien on Property Name, a \_\_-unit, [include if applicable: Student, Rent Restricted, LIHTC, Section 8, Age Restricted, etc.], style apartment complex located in City, State. The loan facilitated the refinance of existing [Freddie Mac, *if applicable*] debt and an ownership buy out of Sponsor Name, a former equity partner. The agreed upon consideration for the buyout was $\_\_\_\_\_ and the borrower has $\_\_\_\_\_ net equity remaining in the transaction.

*Note the ownership percentage of the former sponsor if available.* *If a new equity partner was brought in to replace the former, note the name of the new sponsor.*

## **Partnership Buyout (Acquisition/Title Change):**

Seller Name funded and Freddie Mac purchased a $\_\_\_\_\_ ($\_\_\_/unit) \_\_-year loan secured by a first lien on Property Name, a \_\_\_-unit, [include if applicable: Student, Rent Restricted, LIHTC, Section 8, Age Restricted, etc.], style apartment complex located in City, State. The loan facilitated an ownership buy out of Sponsor Name, a former equity partner, and title was transferred to a new borrowing entity. The agreed upon purchase price for the buyout was $\_\_\_\_\_ and the borrower contributed $\_\_\_\_\_ to the transaction.

*Note the ownership percentage of the former sponsor if available. Confirm whether the purchase was considered arm’s length and if a new equity partner was brought in to replace the former, note the name of the new sponsor.*

## **Tranched Debt Transactions (Acquisition) – Global ASR:**

Seller Name funded and Freddie Mac purchased a \_\_-year loan secured by \_\_ properties, with a total loan amount of $\_\_\_\_\_ ($\_\_\_/unit). The properties were purchased 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 Year.

## **Forward, New Construction:**

Seller Name is requesting the approval of a(n) [Unfunded/Funded] Forward commitment for a $\_\_\_\_\_ ($\_\_\_/unit) [Fixed/Floating] rate permanent [tax-exempt] loan that will finance the [development/rehabilitation] of Property Name, a(n) [to-be-built/existing] \_\_-unit, [Workforce housing/4% LIHTC/9% LIHTC] apartment community located in City, State.

The forward commitment period will be for \_\_ months. Upon successful conversion, the permanent loan term will be \_\_\_\_ years with a \_\_\_\_-year amortization schedule. The loan is priced at a \_.\_\_x DCR and \_\_% LTV. The loan is underwritten at a \_.\_\_x DCR and \_\_.\_\_% LTV, based ona note rate of \_.\_\_%, and the appraiser’s As-Stabilized Restricted value of $\_\_\_\_\_ using [HAP / LIHTC / etc.] rents. The permanent loan will repay the balance on the construction loan.

Construction is scheduled to begin in Month Year and conclude by Month Year. The total estimated hard construction costs equal $\_\_\_\_\_ ($\_\_\_/unit). The Construction Lender, Lender Name, will provide an estimated $\_\_\_\_\_ construction loan for the duration of the Forward period. The LIHTC credits will be purchased/syndicated by Investor, who will be providing $\_\_\_\_\_ in equity to the transaction. [The Construction Lender has financed \_\_ of the Sponsor’s \_\_ properties/This will be Construction Lender’s first transaction with Sponsor.]

*For all expedited reviews add:* The Construction Lender meets the Freddie Mac Seller/Servicer Guide criteria required for eligibility for an Expedited Review. As a result, all construction documents will be reviewed within 90 days of the executed commitment date.

*For all non-expedited reviews include:* The Construction Lender does not meet the Freddie Mac Seller/Servicer Guide criteria required for eligibility for an Expedited Review. Freddie Mac’s physical risk group has reviewed all construction documentation.

*For Workforce Housing*: Additional sources include \_\_ (please explain).

## **Conversion:**

Seller Name funded and Freddie Mac purchased a $\_\_\_\_\_ ($\_\_\_/unit) \_\_-year loan secured by a first lien on Property Name, a \_\_\_-unit, [*include if applicable:* Student, Rent Restricted, LIHTC, Section 8, Age Restricted, etc.], style apartment complex located in City, State. The borrower developed the property in Year for $\_\_\_\_\_ ($\_\_\_/unit) and the loan refinanced the construction loan. The borrower contributed $\_\_\_\_\_ of the total development costs of this transaction and has $\_\_\_\_\_ cash equity remaining in the deal (\_\_% of the total cost basis).

In Month Year, Freddie Mac entered into an unfunded forward commitment with Seller Name to take out the construction loan. During the subsequent \_\_ years, the sponsor [built/rehabilitated] and stabilized the property, and the permanent loan is successfully converting with [no material changes/the following material changes]. *Discuss any material changes if applicable.*

At forward underwriting, the approved minimum DCR and maximum LTV were \_.\_\_x and \_\_.\_%, respectively. At conversion, the DCR and LTV were underwritten to \_.\_\_x and \_\_.\_%, respectively.

## **Common Sponsorship:**

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.

## **Lease-Up Deals:**

The subject loan was funded and purchased by Freddie Mac as part of a pre-stabilized lending program for new construction properties in lease-up. The property is targeted to reach stabilization in Month Year.

# Escrow/Reserve Requirement Footnotes

## **Escrows**

* [Tax/insurance/replacement reserve/deferred maintenance reserves] are collected.

*Explain all “Other Escrows.” Include the purpose, amount, how it was structured, and any disbursement and release terms. If the escrow was intended to fund additional capital replacements at the property include the specific replacements and the intended time frame.*

* The borrower made an initial deposit of $\_\_\_ into the Reserves for Replacement escrow to reduce the annual deposit from $\_\_\_/unit/year as recommended by the PCA to $\_\_\_/unit/year.
* Deferred maintenance reserve includes an initial deposit for immediate repairs. The engineer identified immediate repairs consisting of \_\_\_\_\_. The repairs were escrowed at 100%/125% of anticipated cost. Per the Multifamily Loan and Security Agreement dated \_\_/\_\_/\_\_, the repairs must be completed within 365 days of closing.

## **Springing Escrows**

* Tax escrow springs upon default, transfer or failure to pay taxes.
* Insurance escrow springs upon default, transfer or failure to maintain adequate insurance.
* Replacement reserve escrow springs upon default, transfer or failure to maintain the property.

## **Floating Rate Escrows**

* Other Reserves includes the monthly deposit made to the interest rate cap escrow for the purchase of a replacement cap at the maturity of the initial \_\_-year term. The escrow deposit will be recalculated [annually/semi-annually] based on the lender’s estimation of the cost of the replacement interest rate cap. Funds are escrowed at [100%/125%] of the estimated cost. The replacement cap provider is subject to lender approval.

## **Capped Escrows**

* In the event that the escrow account falls below the capped threshold, an ongoing monthly deposit will be instated until the escrow account is equal to or greater than the requirement.

## **COVID-19 DSR Escrows**

* The Borrower made an initial deposit into a COVID-19 Debt Service Reserve (“DSR”) in an amount equal to \_\_ months of [amortizing/interest-only] Debt Service payments. The Borrower may request a disbursement from the DSR in the amount of a Shortfall Amount to pay principal and interest amounts upon submission of a Borrower Certification of Rental Collections, current rent schedule and current trailing 12-month operating statement. Any time that funds in an amount sufficient to pay in full the next Monthly Payment on the Loan remain in the DSR, the Borrower is not eligible for any forbearance option related to the COVID-19 pandemic. The DSR will be released following achievement of T-3 average collections equal to or greater than the Release Rental Collections per the Loan Agreement, and there is no Event of Default.

*For Seniors Housing Properties:*

* The Borrower made an initial deposit into a COVID-19 Debt Service Reserve (“DSR”) in an amount equal to 12 months of amortizing Debt Service payments. The Borrower may request a disbursement from the DSR in the amount of a Shortfall Amount to pay principal and interest amounts upon submission of a Borrower Certification of Rental Collections, current rent schedule and current trailing 12-month operating statement. Any time that funds in an amount sufficient to pay in full the next Monthly Payment on the Loan remain in the DSR, the Borrower is not eligible for any forbearance option related to the COVID-19 pandemic. The DSR will be released at least 90 days following the lifting of all governmental actions related to COVID-19 affecting the property (but in no event more than 12 months), no part of the Property is subject to any ban on admissions due to the COVID-19 and no resident units have been ordered to be vacated for the purposes of controlling COVID-19 (subject to the most recent legal commitment language as revised time to time), achievement of T-3 average collections and collections in the last month (inclusive of care) equal to or greater than the Release Rental Collections per the Loan Agreement, achievement of T-3 NOI per the Loan Agreement, and there is no Event of Default. [Also add as applicable all Deferred Property Inspections have been completed/all Deferred Property Reports received.] [Also add combined T-3 NRI and NOI Test thresholds for crossed pools.] [Add if there are any deferred property reports: Notwithstanding the foregoing, if any Deferred Property Reports indicate that the funds in the deferred maintenance or replacement reserves escrows are insufficient, then any remaining funds from the DSR will be transferred to these escrows at Lender’s Discretion.]

## **Student Debt Service Reserve Escrows**

* Other Reserves is comprised of a \_\_- month debt service reserve. The reserve will remain in place until the beginning of the Year-Year school year when the property demonstrates underwritten occupancy and rental collections for one month.

## **Delaware Statutory Trust**

The borrower made an initial deposit of $\_\_\_\_\_ into the reserves for replacement escrow, per the terms of the DST structure, equal to the first \_\_ years of replacement reserves. The initial deposit does not reduce the ongoing monthly reserve payment.

## **Green Advantage Escrows**

* Other Reserves includes an initial deposit for energy efficiency improvements, totaling $\_\_\_\_, for planned repairs to improve energy and water efficiency including [*list green improvements]*. Per Multifamily Loan and Security Agreement dated \_\_/\_\_/\_\_, the repairs must be completed within \_\_ months of closing.

# Supplemental Footnotes

* The loan is eligible for future supplemental financing exclusively from Freddie Mac one-year after origination of the first mortgage. Conditions for such financing include, but are not limited to: (i) maximum combined LTV of \_\_.\_%, (ii) minimum combined DSCR of \_.\_\_x (amortizing), (iii) subject to a pre-approved intercreditor agreement and (iv) certain other conditions as described in the related mortgage loan documents.

## **Floating Rate Supplemental Footnotes**

* The maturity balance is calculated based on 30-day average SOFR of \_.\_\_\_% plus the margin.
* The interest rate is composed of the 30-day average SOFR of \_.\_\_\_% plus the margin.
* The loan is eligible for future supplemental financing exclusively from Freddie Mac one-year after origination of the first mortgage. Conditions for such financing include, but are not limited to: (i) maximum combined LTV of \_\_\_%, (ii) minimum combined DSCR of \_.\_\_x (based on amortizing debt service calculated using the Interest Rate Cap), (iii) subject to a pre-approved intercreditor agreement and (iv) certain other conditions as described in the related mortgage loan documents.
* The borrower paid an upfront premium fee of $\_\_\_\_\_\_ to [*Third Party*] to purchase the Interest Rate Cap Coverage. The external cap agreement has a \_\_-year term expiring [Month, Year] with a strike rate of \_\_%.

# 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.

## **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 [*If floating include*: (based on the spread plus average SOFR of \_.\_\_\_%)] based on an underwritten NOI that is \_\_\_ % less than T-12 ending \_\_/\_\_/\_\_.

## **Conservatively Underwritten NOI**

*Note: Only use when the underwritten NOI is at least 5% below the T-12 NOI. Use this strength only when expenses are underwritten more conservatively than historical expenses, or if there is very strong support for any expense cuts.*

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.

## **Strong [Guarantor/Sponsor]**

The [guarantor/sponsor], \_\_\_\_\_\_ [and \_\_\_\_\_\_], reported a combined net worth and liquidity of $\_\_\_ and $\_\_\_\_\_\_, respectively. *Discuss the guarantor’s or sponsor’s* *unique backgrounds and years of experience as an owner/operator, as well as experience in the market or experience operating a specific property type (LIHTC, student, senior, etc.). Also, discuss the their REO. If the guarantor or sponsor is an entity, discuss the individuals or organizations controlling the entity.* *If the guarantor or sponsor is a repeat Freddie Mac borrower:* The guarantor is a repeat Freddie Mac borrower, having completed XX transactions since Year, totaling $\_\_\_\_\_ in UPB. The loans have paid as agreed.

## **Strong Property Management**

The property is managed by \_\_\_\_\_\_, a [borrower-affiliated/third party] management company. Management company name was established in Year, and currently manages \_\_\_ multifamily properties totaling \_\_\_ units, as well as \_\_ multifamily properties totaling \_\_\_ units in the local market. *If applicable, discuss if the management company has specific experience managing low income, rent restricted, student, age restricted, seniors, etc. If third-party management, discuss whether the manager has an existing relationship with the guarantor such as through managing the guarantor’s other properties.*

## **Historically Stable Occupancy**

*Note: only use this as a strength if historical vacancy ≤ 5% for the past three years*

The vacancy rate at the property was \_\_% as of \_\_/\_\_/\_\_, which is superior to the [REIS/Axiometrics] Quarter Year [MSA/submarket] vacancy rate of \_\_%, as well as superior to the vacancy rate for similar vintage properties (built between Year and Year) of \_\_%. Average historical vacancy rates at the property ranged from \_\_% to \_\_% from Year to Year. The breakeven vacancy rate is approximately \_\_\_%, compared to the underwritten vacancy rate of \_\_\_% and T-12 ending \_\_/\_\_/\_\_ average of \_\_\_%.

## **Excellent Property Condition and Curb Appeal**

*Note: Consider whether this strength or the recent renovations strength is more appropriate. Do not include both. Use this strength when the property is in excellent condition relative to the rest of the local supply. This can also be used when substantial renovations have raised the profile of the property significantly above the rest of the local market, comparable to newly built properties.*

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

## **Recent Renovations**

*Note: Generally, use this strength when the total renovations completed within the last three years are equal to at least 5% of the UPB of the loan. In instances where total renovations are less than 5%, but where significant renovations have been completed for a portion of units, consider including this strength if the renovations are at least $5,000/unit, or if the renovations have resulted in significant rental premiums for renovated units.*

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], XX 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].

## **Superior Amenities**

Amenities such as *list unique amenities* are unique to the property and enhance its competitiveness. *Discuss how the unique amenities compare to competing properties in the local area. If the property is a student property include specific amenities targeted towards students such as 1:1 bedroom/bathroom ratio, individual room locks furnished, shuttle service, business center/study rooms, etc.*

## **Location and Access**

The property is located \_\_\_ miles Direction of the \_\_\_\_\_\_ CBD. Interstate \_\_\_ and ­­­\_\_\_ (major secondary arterials are located \_\_ miles *N/S/E/W* of the property. The property is \_\_\_ miles *N/S/E/W* of *list distance to major employment centers, commercial corridors or other demand generators specific to the property’s location*. The property has excellent access to *list additional demand generators*. Discuss access to public transportation. [Student property - includes distance and access to campus].

## **Strong Market Fundamentals**

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 \_\_\_% and it is expected to remain below \_\_\_% over the next five years. During this same time 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**

*Note: Only use this strength if the sponsor is planning to complete capital improvements that will result in rental upside.*

*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.

*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 \_\_\_%.

## **Affordability**

Demand for affordable housing continues to swell nationwide as the rental population increases, household incomes fail to keep pace with rent increases and the supply of new multifamily construction with affordable rents remains limited. According to data published by the Harvard Joint Center for Housing Studies (JCHS) in 2020, \_\_\_\_ of renters were cost burdened (spending > 30.0% of income on housing) and \_\_\_\_ of renters were severely burdened (spending > 50.0% of income on rent) in the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ MSA. The average household income within a five-mile radius of the subject is \_\_\_\_\_ and estimated median household income is \_\_\_\_\_\_. The property's average rent per year represents \_\_\_\_\_\_ of the average household income and \_\_\_\_\_\_\_ of the median household income, making the property affordable for the majority of the local population.

*Note: Cost burdened figures can be pulled from the link to the MSA-level rent-burden interactive map:* [*https://www.jchs.harvard.edu/many-renters-are-burdened-housing-costs*](https://www.jchs.harvard.edu/many-renters-are-burdened-housing-costs)

*The average household income and median income can be taken from the Appraisal, some appraisals present this data a little differently (like MSA average, versus 5-mile radius average, etc.) so mix up the boiler plate as needed to suite your needs.)*

## **Affordability – Manufactured Housing Communities**

The appraiser prepared an affordability analysis for the subject as compared to single-family home ownership and comparable apartment rentals in the subject’s market. The analysis indicated a total monthly obligation of approximately $\_\_/month for a manufactured home in the subject community inclusive of financing assumptions, taxes, insurance, and other home ownership expenses. The cost of a manufactured home is less than the total monthly obligation of a single-family home in the submarket ($\_\_\_\_/month). The cost of a manufactured home is in line with the appraiser's estimated total obligation range of $\_\_\_\_/month for a two to three-bedroom apartment unit. This evidences the affordability, attractiveness, and demand of home ownership with a manufactured home in the subject community relative to all other housing options in the neighborhood.

## **Affordability – Targeted Affordable Housing**

\_\_% of the units at the property are rent and income restricted, and the property rents are on average \_\_% below the appraiser’s market rents. The affordability of the property is expected to limit turnover and vacancy at the property, resulting in more stable income than would be experienced by an unrestricted, market rate property. The studio units in place rents have an affordability gap of \_\_%, the one-bedroom units in place rents have an affordability gap of \_\_%, the two-bedroom units in place rents have an affordability gap of \_\_%, the three-bedroom units in place rents have an affordability gap of %, and the four-bedroom units in place rents have an affordability gap of \_\_%.

## **Long Term HAP Contract**

The property is subject to a project-based Section 8 HAP contract, which is a guaranteed income stream from the Department of Housing and Urban Development (HUD). The contract commenced in \_\_\_\_ and encompasses all/X% of the units. The contract expires in Year, \_\_ years beyond the loan term. The HAP contract rents are consistent with market rents, and the REAC score per HUD’s inspection in Month Year was \_\_\_\_. The subject property is \_\_\_% occupied and has a \_\_\_ waitlist. *If there is a waitlist for HAP contract properties at the city/county level, note here.* The borrower and the carve out guarantor are required per the loan documents to remain in compliance with the terms of the HAP contract.

# Transaction Risks/Mitigants

## **\_\_-Year Interest-Only Period or Full-Term Interest-Only**

The loan is interest-only for the [initial \_\_\_ years/full term of the loan]. This risk is mitigated by $\_\_\_\_\_\_ of equity as well as [*if the loan is FT IO only include the I/O DSCR:* an I/O DSCR of \_.\_\_x / I/O and amortizing DSCRs of \_.\_\_\_x and \_.\_\_\_x, respectively,] [*Include* “(based on the spread plus average SOFR of \_.\_\_\_%)” *if floating*] on sustainable cash flow that is \_\_\_% less than T-12 ending \_\_/\_\_/\_\_. *If amortizing DSCR is less than 1.35x and/or UW cash flow is in-line or greater than T-12, look at historic cash flow growth and note % increase. If the maturity LTV is 65% or less*:Additionally, the maturity LTV is \_\_%.

* *Does the IO period correspond with possibly a capex/renovation plan for a property? Is the borrower planning to increase rents, possibly NCF and value (Would the submarket support higher rents and value at the property)?*
* *If IO corresponds to capex budget, include this as mitigant.*
* *If rent increases in line with or below submarket rent levels, include as mitigant.*

*For Seniors Housing Properties:*

An alternative to the Multifamily standard refinance test was completed to include the market’s seniors housing occupancy in year five of the cash flow.  The resulting DSCR and LTV of \_.\_\_x and \_\_.\_\_%, respectively, reflected the greater maturity risk based on the market’s 1Q 2020 pre-COVID occupancy rate of \_\_%. The resulting ratios are considered adequate, however, given the large seniors population surge expected by 2025 helping to further mitigate the depressed occupancy state. *[If the results using the actual 1Q 2020 are less than 1.25x / greater than 90%, replace the results using 88% occupancy in year 5 and comment on the pre-Covid occupancy rate, when last at 88% and amount of new supply vs inventory percentage as of 1Q 2020 vs today.  Include other refi mitigating risks such as reduced UW NOI, burn-off of concessions, increased occupancy, reduced operating expenses*.]

## **Cash Out**

The borrower cashed out approximately $\_\_\_\_\_ in this transaction. This risk is mitigated by $\_\_\_\_\_ of equity remaining in the transaction, representing approximately \_\_% of the total cost basis. *Note if the borrower has owned the property for more than five years or if a substantial amount of capital improvements has been made during ownership. If the borrower is cashing out substantially after three or less years of ownership and substantial value creation has occurred, note % increase in NOI since purchase. Note as a mitigant if borrower has clean credit history.*

***Discuss the refinance investment story.*** *If the cash is not a simple pay out, what will the proceeds go towards? Will it be invested back into the property as capex, or used 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.*

*If the loan is a refinance of a Freddie Mac Loan, what is the cashflow impact with the new loan’s debt service? Has the DCSR improved as a result of the new rate? What is the cashflow impact of any capital improvements completed since the first loan. If the property has significant deferred maintenance, discuss how we grew comfortable with the cash out despite existing property condition issues.*

## **Value Growth**

Per the appraiser, the As Is Value is \_\_% greater than the month/year purchase price of $\_\_\_\_\_ due to *(e.g. recent capex or renovations, increase in rent levels at the property, etc.).* Since acquisition, [*Sponsor name*] has upgraded X units (X%) at a cost of approximately $\_\_\_($\_\_\_/unit), resulting in rental premiums of $\_\_/unit. As a result, NRI has increased by \_\_% since acquisition. This has led to a \_\_% NOI increase since the T-X ending \_\_/\_\_/\_\_. *If NOI growth is primarily due to expense cuts, indicate supported from Freddie Mac/Appraisal/Borrower Comparables.* The difference between these amounts ($XXX), when capped at the appraisal cap rate of \_\_%, produces an increase in value of $XXXX [, which is supported by the appraiser’s value conclusion of $XXXX]. Additionally, exterior renovations since acquisition total $\_\_\_ and include [*list all exterior improvements*]. [*If applicable:* In addition, the property’s valuation is further supported by the appraiser’s sales comparables, which have adjusted values ranging from $\_\_\_\_/unit to $\_\_\_\_/unit, averaging $\_\_\_\_/unit, and cap rates ranging from \_\_.\_% to \_\_.\_%.] [*If applicable:* The cap rate has compressed \_\_\_bps from \_\_\_ to \_\_\_ over the past X years.] Per Reis quarter/year, asking rents in the submarket have increased X% since acquisition, while vacancy rates have ranged between X%-X% over the same timeframe. The risk is further mitigated by [an \_\_% underwritten LTV, as well as (*only include when the LTV is less than 65%)*] 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 MM/DD/YYYY.

**Tell the story of the value growth. Consider the following scenarios, and if applicable, discuss their impact on the property’s value growth.**

* *Was the property purchased in a distressed state, out of foreclosure, or in some condition that impacted the purchase price? Include details on the physical condition, occupancy, and collections at the time of acquisition. Were there down units or significant deferred maintenance?*
* *Was the property purchased in an off-market transaction at below the market level? Why?*
* *Did poor management under the previous owner impact performance? Include details on the new management and any steps taken to improve performance. Does the new management have experience in the local market or stronger tenant screening processes?*
* *Was the property impacted by significant crime? Include details on the property’s security measures. Has the sponsor invested in capital improvements to prevent further issues (i.e. install security cameras, secured access, exterior lighting etc.)?*
* *If the value isn’t supported by recent sales comparables, provide narrative support for the appraiser’s valuation. Possible reasons include extremely desirable location/neighborhood, downtown location, excellent amenities at property level and/or unit-level, unique product in market, market demand/supply imbalance, potential upside from planned renovations, etc.*

*If value growth is due to a low-cost basis and recent construction/conversion of a construction loan:*

Per the appraiser, the As Is Value is \_\_% greater than the Month Year development cost of $\_\_\_\_\_*.* The borrower purchased the land in \_\_\_\_ for $\_\_\_\_\_. *If the land was purchased a long time ago, include details on why the borrower only recently constructed the property, as well as the appraiser’s estimates on the current value of the land.* Development began in Month, Year, and completed Month, Year. [*If applicable:* Due to the borrower’s in-house development arm, there was no General Contractor fee, which the borrower estimates would have been approximately $\_\_\_\_\_\_. Additionally, the borrower was able to utilize [economies of scale/local expertise/extensive construction experience] to develop a quality property for below standard market costs.] *Include any other details that led to the property being developed for below-market costs.*

## **Property Condition**

*If the property is in good condition but ≥ 20 years :*

The property was built in *\_\_\_\_* and 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. *If there are not any recent or planned capital improvements, what is the sponsor’s plan for remaining competitive with nearby properties?* Per REIS quarter/year, the property is consistent with the submarket inventory with \_\_% built before \_\_\_\_\_\_. In addition, monthly replacement reserves are required.

*If property has significant deferred maintenance/condition issues:*

The property was built in \_\_\_\_\_\_. The engineer identified repairs totaling $\_\_\_\_, consisting of \_\_\_ ($\_\_\_\_), \_\_\_ ($\_\_\_\_), and \_\_\_\_ ($\_\_\_). [*If the property has down units:* Additionally, the property has \_\_ down units due to [*explain why the units are down*], the restoration of which was included as a priority repair at an estimated total cost of $\_\_\_.] Per the Multifamily Loan and Security Agreement, the repairs must be completed within \_\_ days of closing. 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 there are not any recent or planned capital improvements, what is the sponsor’s plan for remaining competitive with nearby properties?* *Does the subject’s condition impact the ability to compete with properties in the local area? If so, include the sponsor’s plan to address these issues****.*** Per REIS quarter/year, the property is consistent with the submarket inventory with \_\_% built before \_\_\_\_\_\_. In addition, monthly replacement reserves are required.

**Tell the story of the property condition. Consider the following scenarios as add additional details as applicable:**

* *Does the property have pending priority repairs or capital improvements that could impact property operation? If so, request the sponsor’s specific timeline and plan for completing the work. Examples of such projects may include widespread roof replacements, unit renovations upon turn, extensive electrical or plumbing repairs, amenity renovation or construction, etc.*
* *If the loan is a refinance, why hasn’t the sponsor already addressed any the deferred maintenance items and poor property condition?*
* *If the sponsor is cashing out a significant amount of money, will any of that money be used to address the deferred maintenance or reinvested into the property? If not, why?*
* *Are deferred maintenance items standard repair items (i.e. roof replacement, repaving, HVAC/water heater replacement, etc.) or indicative of poor management (i.e. mold, infestations, potholes throughout paved areas of the property, etc.)?*
* *Have there been any major casualties at the property that haven’t yet been repaired or addressed?*

*Include if the property is participating in the Green Advantage Program:*

The borrower provided an escrow totaling $\_\_\_\_ for the completion of Green improvements consisting of [*list all green improvements*]. The Green improvements are projected to lead to total water and energy savings of \_\_% and \_\_%, respectively.

## **Tertiary Market**

*If REIS or Axiometrics do not have data for the subject’s market, consider whether it is a tertiary market.*

The property is located in City, State which is \_\_\_\_ miles [Direction] of [Nearest Major City]. *Discuss access to public transportation, and planned improvements to local infrastructure and employer investment in the area.* Interstate \_\_\_ is located \_\_ miles [direction] of the property and provides convenient access to [Nearest Major City/Demand Drivers]. Major employers in the area include \_\_\_\_\_ and provide a stable employment base for the market. ***Discuss the market’s economy and growth potential, as well as any recent commercial, industrial, or cultural developments.*** The property is \_\_\_ miles [Direction] of [major employment centers, commercial corridors, schools, or other demand generators specific to the property’s location]. Within a \_\_\_-mile radius of the property, the population was \_\_\_\_ in Year, and is expected to grow by \_\_%, to \_\_\_\_ in Year. The Year [average/median] household income was $\_\_,\_\_\_, and is expected to grow by \_\_%, to $\_\_,\_\_\_ in Year.

*If vacancy at the property has remained low despite the tertiary market, include the following:*

Further, vacancy at the property has remained stable, ranging from \_.\_\_% to \_.\_\_% from Year to Year. The vacancy rate was \_.\_\_% as of \_\_/\_\_/\_\_[, which is superior to the REIS Quarter/Year market vacancy rate of \_.\_%]. Additionally, management reports that \_\_ tenants have been residents at the property for over \_\_\_ years, with tenancy averaging \_\_ years.

**Tell the market’s story. How will the market support the property? Consider the following points as you discuss and mitigate this risk.**

* *Does the borrower or the property management company have extensive experience in the local market?*
* *If the market is supported by a single demand driver, discuss the stability of the driver as well as its projected growth in the near future.*
* *Include a detailed description of the property’s access to local transportation, infrastructure, and to nearby retail, commercial, schools, and cultural establishments.*
* *Consider whether the local area benefits from any development initiatives generating increased development/growth in the market.*
* *Discuss the quality of the local school districts, community colleges, and universities.*
* *Note mitigants such as lower multifamily inventory and development in area.*

## **High Submarket Vacancy Rate**

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

Per REIS Quarter/Year, the submarket vacancy rate is \_\_\_%. The submarket vacancy is projected to remain below \_\_\_% over the next \_\_ years. Per the appraisal/REIS Quarter/Year\_, \_\_\_\_ units were added to the submarket/market in the last \_\_\_\_\_ months/years OR Per REIS Quarter/Year, approximately \_\_\_\_\_ units are scheduled for delivery in \_\_\_\_\_. However, the property has outperformed the submarket vacancy rate for the past \_\_\_\_ months/years, and as of \_\_/\_\_/\_\_, the property was \_\_\_% occupied. *Note factors that allow the property to outperform the market, if applicable.* 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 \_\_/\_\_/\_\_.

*Provide details on most competitive new properties: location, rent levels, etc. Note projected job growth or population growth in the area to support new construction.*

## **Recent Crime Concerns / Local Crime Concerns**

*Note: Address any major incidents that occurred within the last three years. When discussing crime incidents, please include the following:*

* *What was the nature of the incident? Was it violent?*
* *What did property management say about the crime? What did local law enforcement say?*
* *Are crime concerns at the property consistent with the surrounding area?*
* *Were the involved persons tenants of the property? Guests? If so, are the tenants still living at the property?*
* *Did the crime impact property operations?*
* *What new safety or security procedures resulted from the incident? Please consider the impact of any security related capital improvements. Will the improvements have a realistic impact on mitigating future crime concerns?*
* ***If the loan is a refinance and crime has been an ongoing concern throughout the sponsor’s ownership, discuss the historical and in-place safety and security procedures.***

**If significant crime has occurred at the property:**

Per the [*source of crime report*] crime report dated \_\_/\_\_/\_\_, \_\_ incidents were reported at the property within the last \_\_ [months/years] [*if violent crimes have occurred at the subject:* including \_\_ violent crimes consisting of [list the crimes]. *Discuss the property’s security procedures including tenant screening practices, security related amenities, distance to the closest police department, and sponsorship/management experience in the local area.* ***Discuss the steps the sponsor is taking to reduce the likelihood of future incidents at the property.*** *Has the sponsor or property manager established a relationship with the local police force? Do police or private security officers regularly patrol the property?*

*If occupancy was not impacted by crime also include:* These incidents have not affected the property’s occupancy as the occupancy has remained stable, ranging from \_\_% to \_\_% from year to year. The physical occupancy was \_\_% as of \_\_/\_\_/\_\_[, *if applicable* which is superior to the REIS Quarter/Year submarket vacancy rate of \_.\_%].

**If significant crime has occurred in the local area:**

Per the [*source of crime report*] crime report dated \_\_/\_\_/\_\_, \_\_ incidents were reported in the local area within the last \_\_ years. *Describe the nature of the incidents and where the crimes were in relation to the property. Discuss the property’s security procedures including tenant screening practices, security related amenities, distance to the closest police department, and sponsorship/management experience in the local area. Has the sponsor or property manager established a relationship with the local police force? Do police or private security officers regularly patrol the property?*

*If occupancy was not impacted by crime also include:* These incidents have not affected the property’s occupancy as the occupancy has remained stable, ranging from \_\_% to \_\_% from year to year. The physical occupancy was \_\_% as of \_\_/\_\_/\_\_[, *if applicable* which is superior to the REIS Quarter/Year submarket vacancy rate of \_.\_%].

* *If the loan is an acquisition and violent crimes have occurred under previous ownership, include additional details on the sponsor’s experience owning and operating properties with significant crime issues, as well as their plan to turn the property around.* *Additionally, request details on any steps the previous owner took in response to the crimes.*
* *If the loan is a refinance and violent crimes have occurred during the sponsor’s ownership, include additional details on the steps the sponsor is taking to ensure that violent crime won’t continue to occur at the property.*

## **Low Historical Occupancy**

Vacancy at the property has ranged from \_\_\_% to \_\_\_% over the past \_\_\_ years of operations. *Include explanation/drivers of higher historical vacancy and what caused recent improvement.* The property was \_\_\_% physically vacant as of the \_\_/\_\_/\_\_ rent roll. Note mitigants such as: new, experienced property manager, strong submarket vacancy projections, strong sponsor (local experience), barriers to entry/limited new supply.

## **Contingent Liabilities**

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

## **Servicer Watchlist**

*Include as weakness if the subject property, or the sponsor’s other properties, appear on the Servicer Watchlist.*

*If the subject property is on the watchlist:* The subject property is on the Servicer 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 Servicer 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.*

## **New Supply**

*Note: only include this as a risk if new supply in the submarket is >=10% of the inventory; or, if there are 3 or more new properties within a half mile of the property.*

Per the appraisal/REIS Quarter/Year\_, \_\_\_\_ units were added to the submarket/market in the last \_\_\_\_\_ months/years OR Per REIS Quarter/Year, approximately \_\_\_\_\_ units are scheduled for delivery in \_\_\_\_\_. However, the property has outperformed the submarket vacancy rate for the past \_\_\_\_ months/years, and as of \_\_/\_\_/\_\_, the property was \_\_\_% occupied. *Note factors that allow the property to outperform the market, if applicable.* 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 \_\_/\_\_/\_\_.

## **[Student/Military/Corporate] Tenant Concentration**

*Note: only include as risk if tenant concentration is ≥ 25%. If the tenant concentration is less than 25% consider including details in the property section. This applies for ALL concentrations (ex: student, corporate, military, etc.)*

The property is located \_\_\_ miles Direction from [Name of University/Name of Military Base/Name of Employer] and has a [student/military/corporate] concentration of \_\_\_%. Average historical occupancy at the property has ranged from \_\_\_% to \_\_\_% over the past \_\_\_\_ years. *If student concentration:* The sponsors are experienced student housing owners and operators with \_\_\_\_ beds/bedrooms under management. As of Year, the university has an annual enrollment of \_\_\_\_ students and enrollment is expected to reach \_\_\_\_ students in Year. The property requires [parental guarantees, 12-month leases, etc.]. *For student: Address new supply and preleasing, the property’s competitive advantages in the market and the barriers of entry for new competing properties, if the students can walk to main focal points of the campus, and if shuttles or buses are available. For military concentration: Note likelihood of deployment, the size and type of military base. For corporate concentration: Note size of employer and how long the employer has leased units at the subject property.*

## **Declining [Collections/NOI] Trend**

The property has experienced decreasing Gross Potential Rent (GPR) and a declining [collections/NOI] trend. The property’s GPR has decreased \_\_\_% between the year-end total and the underwritten GPR based on the \_\_/\_\_/\_\_ rent roll. [While rents have fallen in an effort to maintain occupancy, the overall net rental income/While expenses have increased in an effort to maintain effective operations at the property, the overall net operating income] has been conservatively underwritten \_\_\_% below the T-12 ending \_\_/\_\_/\_\_ to account for potential further [income decreases/expense increases]. 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.*

## **Recently Stabilized/Limited Operating History**

The property was completed in Month Year and reached stabilized occupancy in Month Year. *Note mitigants such as: minimal concessions given during lease up, high % leased prior to completion, strong absorption rates in the market.* The underwritten income is supported by the appraisal and the T-X annualized ending Month Year. The underwritten expenses are supported by the appraisal, Freddie Mac market comparables/comparable properties in the sponsor’s portfolio. The NOI conclusion is well-supported by the appraisal and the T-X annualized figures.

*If applicable, mention borrower’s track record which might strengthen the likelihood of the property performing/exceeding at UW levels.*

## **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, if 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.

## **Limited Multifamily Experience**

*If the guarantor owns fewer than three multifamily properties or has less than five years of 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.*

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.

## **TIC Ownership Structure**

The ownership structure is comprised of # Tenants in Common (TIC). The borrowers are single-purpose, State, entity type. The borrower principals in charge of day-to-day operations are Borrower Principal Name(s). The risk of the TIC structure is mitigated by the fact that the guarantors have interest in each TIC/a controlling % of the TIC interests. *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 tenancy in common 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.

## **Delaware Statutory Trust (DST)**

The ownership structure consists of a Delaware Statutory Trust, where business activities are managed by trustees through a Master Lease for the benefit of the trustor, who is entitled to a beneficial interest in the property. DSTs have certain restrictions to which the trustees must adhere in order to qualify for tax benefits, including prohibitions against: (1) accepting additional capital contributions; (2) renegotiating loan terms or borrowing new funds; (3) reinvesting proceeds from sale of the property or acquiring new property; (4) investing reserves or cash; (5) failing to distribute all cash other than reserves on a regular basis; (6) making more than minor non-structural modifications; and (7) renegotiating or negotiating a new master lease on the property.

[*Sponsor name*] has extensive experience owning and operating DSTs, as well as maintaining and operating properties owned using this structure. The borrower provided a deposit of $\_\_\_\_\_\_ into the replacement reserves, equal to an additional two years of replacement reserves over as recommended by the PCA. The property was built in \_\_\_\_ and is in excellent physical condition. Additionally, the Delaware Statutory Trusts rider was attached Multifamily Loan and Security Agreement dated \_\_/\_\_/\_\_, and includes non-recourse carve-outs for any losses or damages related to the Borrower failing to comply with the DST requirements contained in the rider. These risks are further mitigated by the conservatively underwritten LTV of \_\_.\_%, as well as the I/O and amortizing DSCRs of \_.\_\_x and \_.\_\_x, respectively.

## **No Carve Out Guarantor**

*Please highlight this as a risk regardless of the leverage point.*

The subject loan does not have a carveout 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 Phase I environmental report was received during due diligence.

## **Acquisition via Assignment**

The subject is under contract to be acquired by [*Assignor name*] for a purchase price of $\_\_\_\_\_. The subject will then be assigned to [Borrower name] for an assignment price of $\_\_\_\_\_, equating to \_\_% of the purchase price of $\_\_\_\_\_\_\_. *If there is an assignment fee, discuss the valuation and how Freddie Mac became comfortable with the deal. [Discuss any prior relationship or business transactions between the Assignor and Borrower and confirm whether the transaction was widely marketed/*The assignor and the Borrower have no prior relationship.] The total purchase price of $\_\_\_\_\_ is supported by the appraiser’s concluded value of $\_\_\_\_\_\_. The property’s valuation is further supported by the appraiser’s sales comparables, which have adjusted values ranging from $\_\_\_\_/unit to $\_\_\_\_/unit, averaging $\_\_\_\_/unit, and cap rates ranging from \_\_.\_% to \_\_.\_%.

## **Subordinate Financing**

The Subject will be encumbered by \_\_ subordinate loans, as provided by: (i) [Lender 1], (ii) [Lender 2], etc., totaling $\_\_\_\_\_ in subordinate financing. *If more than one subordinate loan, list the amount of each.* The subordinate loans [are/are not] considered “soft” debt and the subordinate lender is a [governmental entity/non-profit/borrower affiliate]. Subordination Agreement(s) were executed upon closing, which limits total payment on all subordinate debt to 75% of cash flow and requires the subordinate lender to resubordinate to a future lender upon a refinance of the subject mortgage. The subordinate loan matures \_\_ years after the senior loan. A non-recourse carve-out was added to the Note for losses or damages relating to a default on the subordinate loan. A default on the subordinate loan will trigger a default under the senior loan. *If governmental lender*: In the event of a default on the subordinate loan, the subordinate lender must provide Freddie Mac with a 90-day notice before pursuing any enforcement actions, giving Freddie Mac time to cure the default. Other lenders: In the event of a default on the subordinate loan, the subordinate lender must notify Freddie Mac, and may not take any enforcement actions without written consent from Freddie Mac.

*If subordination agreement was modified materially so that any of the statements above are not true, explain. Note if subordinate debt exists solely to ensure affordability restrictions.*

## **Tax Abatement**

The subject currently benefits from a Name of Type of Abatement. The tax abatement began on \_\_/\_\_/\_\_\_ and will terminate on \_\_/\_\_/\_\_\_, which is \_\_ years beyond the end of the loan term. The tax abatement covers \_\_% of the total tax liability. *Describe if/when tax abatement phases out.* The net present value of the tax abatement based on a \_\_% discount rate, is $\_\_\_/unit. *State why the abatement is in place*. *List any conditions required to keep the abatement such as rent stabilization. Perform a cash flow analysis and describe the impact that the abatement has on property performance.* The tax abatement will [survive/terminate] upon foreclosure or deed-in-lieu of foreclosure. Underwriting to full unabated taxes of $\_\_\_, the property performs at a \_.\_\_x DSCR. The Multifamily Loan and Security Agreement dated \_\_/\_\_/\_\_\_ requires the Borrower to comply with the tax abatement requirements.

## **Tax Abatement (Not in Place at Closing)**

Upon acquisition, the Borrower intends to apply for a tax abatement. It is expected that the abatement will be granted due to \_\_\_\_\_\_\_ *(explain qualifications).*If granted, abated taxes will be $\_\_\_, which would result in projected I/O and Amortizing DSCRs of \_.\_\_x and \_.\_\_x, respectively. The abatement will terminate \_\_/\_\_/\_\_\_]/ will not terminate as long as the property meets the requirements. Estimated market taxes are $\_\_\_ which would result in projected I/O and Amortizing DSCRs of \_.\_\_x and \_.\_\_x, respectively. If for any reason the property is not approved for or ceased to receive the abatement, the property’s economic performance would be negatively impacted. [*If applicable*: Prior to Borrower’s acquisition of the Property, the Property benefited from the tax abatement under the previous ownership structure]. The Property meets the qualifications for the abatement and is expected to be approved. However, if the abatement is not approved within 12 months after origination, the Borrower will be required to make a $\_\_\_\_ partial prepayment to the loan to bring the UPB down to an amount supported without the abatement, plus the required prepayment premium. [*As applicable*: No reserve is required/ a credit enhancement equal to the difference in the supportable loan amounts will be required until the abatement is granted/ a initial deposit to the tax escrow in the amount of \_\_ months of full taxes will be funded at closing.] Until the abatement is granted, the tax escrow must be calculated based on full taxes. It is expected that a subsequent owner in the event of a sale or foreclosure would also be able to qualify for the abatement (*confirm whether this is true; if not discuss why)*. The Multifamily Loan and Security Agreement dated \_\_/\_\_/\_\_\_ requires the Borrower to comply with the tax abatement requirements. A non-recourse carve-out was added to the Note for the losses or damages relating to the tax abatement being terminated due to the Borrower failing to comply with its requirements.

## **Tax Abatement Expires During Loan Term**

The Property benefits from a [full/ partial] tax abatement due to \_\_\_\_\_\_\_ *(explain qualifications).* The abatement will terminate on \_\_/\_\_/\_\_\_/ which is \_\_-years prior to the end of the loan term. The tax abatement will [survive/terminate] upon foreclosure or deed-in-lieu of foreclosure. Estimated market taxes are $\_\_\_ which would result in a \_.\_\_x projected DSCR. A cash flow analysis was performed using actual taxes, which shows the loan achieving I/O and amortizing DSCRs of \_.\_\_x and \_.\_\_x in year X, when the abatement expires, as well as I/O and amortizing DSCRs of \_.\_\_x and \_.\_\_x at the end of the loan term. During the term of the loan the DSCR, utilizing unabated taxes, does not decline by more than 0.05x from the going-in DSCR. The Multifamily Loan and Security Agreement dated \_\_/\_\_/\_\_\_ requires the Borrower to comply with the tax abatement requirements.

## **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 XXXX and will begin phasing out in XXXX, reaching full taxes in XXXX/XX. *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 XXXX and will begin phasing out in XXXX, reaching full taxes in XXXX/XX. *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.*

## **[Subordinated/Unsubordinated] Ground Lease**

 ***Confirm with Legal that the highlighted language herein applies to the subject’s ground lease.***

*Include this section if the Ground Lease is subordinated:*

The Property consists of the leasehold estate created under a Ground Lease with Landlord Name. ***Discuss who the landlord is, the landlord’s relationship with the borrower.*** The ground lease was established in Month Year, for a term of \_\_ years, expiring Month Year. [*If the ground lease was recently established include*:The land was purchased on Month Year for $\_\_\_\_*.*] ***If the ground lease was established immediately prior to the transaction, discuss why the landlord created the ground lease.*** The holder of the fee interest will execute the Mortgage to subject its interest in the Land to the lien of the Mortgage. The ground lease has been duly recorded, does not impose material restrictions on subletting, is not subject to any unpermitted liens or encumbrances superior or equal to the mortgage, and is prior to other liens or related fee interests. [There is no annual ground lease payment/ There is an annual ground lease payment, totaling $\_\_\_/year, payable only from surplus cash flow].

*Discuss any scheduled increases to the annual ground lease payment, as well as who is responsible for taxes and assessments against the property. If there is an annual ground lease payment that is not required to be payable only from surplus cash flow, discuss the impact of the payment on property performance.*

*Include this section if the Ground Lease is unsubordinated:*

The loan is secured only by the Borrower’s interest as lessee under a ground lease of the Property and is not secured by the fee interest in the Property, which is held by Landlord Name. ***Discuss who the landlord is, the landlord’s relationship with the borrower.*** The ground lease was established in Month Year, for a term of \_\_ years, expiring Month Year.[*If the ground lease was recently established include*:The land was purchased on Month Year for $\_\_\_\_*.*] **If the ground lease was established immediately prior to the transaction, discuss why the landlord created the ground lease.**[*If applicable:* The landlord is a governmental entity, and the unsubordinated ground lease was necessary to allow development on the property.] *If the landlord is not a governmental entity, provide their background and history of ownership.* *Why was the unsubordinated ground lease necessary?* The ground lease has been duly recorded, does not impose material restrictions on subletting, is not subject to any unpermitted liens or encumbrances superior or equal to the mortgage, and is prior to other liens or related fee interests. [There is no annual ground lease payment/ There is an annual ground lease payment totaling $\_\_/year, payable only from surplus cash flow. This payment was underwritten, and \_\_\_ months/years of ground rents were escrowed].

*Discuss any scheduled increases to the annual ground lease payment, as well as who is responsible for taxes and assessments against the property. If there is an annual ground lease payment that is not required to be payable only from surplus cash flow, discuss the impact of the payment on property performance.*

*For both Subordinated and Unsubordinated also include:*

Per the Loan Agreement, the Borrower is required to comply with the terms of the ground lease and will be personally liable for any payments made by Lender to cure a default on the ground lease. A non-recourse carveout was added for losses or damages resulting from a purchaser at foreclosure not having fee title to the property free and clear of the ground lease, or if the Borrower takes an action that surrenders, terminates, or modifies the ground lease, or subordinates the ground lease to any other lien not already approved as part of this transaction. Upon foreclosure or deed-in-lieu of foreclosure, the Mortgagor’s interest is assignable to the Mortgagee and can be further assigned. The Ground Lease is not in default and may not be amended, modified, canceled, or terminated without prior consent from the leasehold mortgagee. Following casualty, any insurance proceeds or condemnation award will be applied to either the repair or restoration of the mortgaged property, or to payment of the principal balance of the loan. Upon termination, the Ground Lease requires the Lessor to enter into a new lease with the Mortgagee.

## **Preferred Equity Hard Pay**

Equity Member Name (“Equity Member”) made a preferred Equity Investment of $\_\_\_\_\_\_\_ in JV Entity [Describe how related to Borrower]. The Equity Member has \_\_% ownership interest in Borrowing Entity [which is ultimately controlled by Name (Managing Member)]. Pursuant to the [preferred equity agreement] (“Agreement”), the Equity Member receives a \_\_% preferred return on the Equity Investment (after first mortgage debt service and reserves) until the redemption date of Date, or the investment has been repaid.

*Discuss:*

* *Timing of payments or changes to payment structure*
* *Additional structural terms / Any cross collateralization*
* *Underwriting review of Equity Member*
* *Remedies and Trigger Events available to the Equity Member*
* *Details as applicable from Legal analysis*

*The preferred Equity Investment results in combined leverage of \_\_\_%, amortizing DSCR of \_\_\_x [and maximum capped DSCR of \_\_\_x]. This risk is further mitigated by (include all that apply):*

* *Lack of remedies or limited remedies available to the Equity Member*
* *Borrower/sponsor financial strength, experience and strong track record with preferred equity deals (provide details).*
* *Prior relationship of preferred equity member and managing member*
* *Strength and experience of Equity Member (provide details)*
* *Stable occupancy*
* *Historical NOI growth, increasing collections trend, high rent growth potential (ex. due to capital improvements)*
* *Conservative loan economics*
* *Repeat Freddie Mac borrower that has performed as agreed*

## **Manufactured Housing Communities Specific Risks/Mitigants**

### Borrower-Affiliate Owned Homes

*Note: If the total percentage of borrower-affiliate owned homes is less than 10%, address in property section.*

There are \_\_ (\_\_%) borrower-affiliate owned homes at the subject property. The borrower-affiliate owned homes are \_\_\_% occupied and the average length of tenancy is \_\_ years. The average combined rent for the home and home site is $\_\_\_/month, which is less than the appraiser’s estimated total obligation range of $\_\_\_/month to $\_\_\_/month for a comparable apartment unit in the market. The tenants make one joint payment to the [borrower/property manager] for both the home site and the home. *If not, detail lease structure*. [The borrower is allowed \_\_ months to enact separate leases for the home sites and the homes owned by the affiliate.] *If rent to own program:* The average conversion rate of rent-to-own homes to home ownership at the subject property and across the sponsors portfolio is \_\_\_ and \_\_\_, respectively. Residents will typically own their homes in \_\_ years via the rent-to-own program. *Note any future plans (i.e. is the borrower planning to add more borrower-affiliate owned homes).* The sponsor has \_\_\_ years of experience operating MHC communities with park-owned homes. The average percentage of park-owned homes across their portfolio is \_\_\_%. The average retention rate of borrower-affiliate owned homes at the subject property and across the sponsors portfolio is \_\_\_ and \_\_\_, respectively. A carve-out is included for any loss, damage, costs or expenses incurred by the lender as a result of any actions taken by borrower in connection with the affiliate-owned homes, including any actions taken with respect to any tenants or residents of the community.

## **Targeted Affordable Housing Specific Risks/Mitigants**

### Affordability Restrictions

The property is subject to affordability restrictions per a [*Name of Regulatory Agreement], dated \_\_/\_\_/\_\_,* between [*Name Local/Federal department*] and [*Borrowing Entity*] (“Contract,” “Agreement,” etc.). Per the agreement, at least \_\_ of the total units at the property must be rented to tenants at or below \_\_% of AMI. *[If rent restricted:* Rents are restricted to \_\_% of the tenants imputed income.] *State if no rent restrictions are in place.* *Also address the following:* *Is the current contract the original or a renewal? Is it funded annually? Does the property have a waiting list? What are the rent escalations and adjustments?* The agreement expires in Year[, \_\_ years beyond the term of the loan]. The agreement [survives/terminates] upon foreclosure or deed-in-lieu of foreclosure. The property is currently in compliance with the agreements, and the Multifamily Loan and Security Agreement dated \_\_/\_\_/\_\_ requires the Borrower to remain in compliance. A non-recourse carve-out was added to the Note for any losses or damages relating to an uncured default under the agreement.

On average, the property exhibits a \_\_% affordability gap when compared to market rents. This affordability gap is expected to limit turnover and vacancy at the property, resulting in more stable income. [*If the agreement terminates upon* *foreclosure and there is an affordability gap:* Upon foreclosure, rents may be increased \_\_% to market rents and the appraiser estimated an as-market value of $\_\_\_\_, \_\_\_% greater than the current value.]

If the agreement survives foreclosure:

* The LURA does not allow any remedies beyond specific performance or injunctive relief, and therefore a subordination agreement was not required. **OR**
* The LURA allows the [City/Agency/etc.] to pursue remedies beyond specific performance or injunctive relief [describe remedies]. Therefore, a [subordination agreement/standstill agreement/etc.] was required which [limits/prevents] their ability to pursue these remedies. *Discuss with legal to understand exactly what the subordination/standstill agreement allows. For HUD, NYSHFA, or NYCHDC, a subordination/standstill is typically not required.*

### Short Term HAP Contract

The property is subject to a project-based Section 8 HAP contract, which commenced on \_\_\_\_ and encompasses all/X% of the units. The contract expires on \_\_/\_\_/\_\_, \_\_ years prior to the end of the loan term. The property has operated under a HAP contract since Year and the contract has been renewed \_\_ times. Prior to the expiration of the HAP contract, the borrower plans to renew the contract. *If the borrower is not planning on renewing, discuss the borrower’s plan.* The borrower has provided a [springing] Section 8 Transition reserve with 6-months of debt service in the event the HAP contract is not renewed. On average, the property exhibits a \_\_\_% affordability gap when compared to market rents. The subject property is \_\_\_% occupied and has a \_\_\_ waitlist. The borrower and the carve out guarantor are required per the loan documents to remain in compliance with the terms of the HAP contract.

### HAP Overhang

The underwritten post-closing average HAP rent of $\_\_\_\_\_/month represents an overhang of \_\_% based on the appraiser’s concluded market rents. The HAP Contract is a long-term contract with a term of \_\_\_ years, \_\_\_ years beyond the loan term. When plugging in the appraiser’s concluded market rents into the Freddie Mac underwritten proforma, the property would cover at a \_.\_\_x DSCR, evidencing that the property would perform well even without the HAP rents. *Note how much of the overall overhang was underwritten.*

### Voucher Overhang

The underwritten GPR rent of $\_\_\_\_\_/month includes an average voucher overhang of $\_\_/unit based on the [market/ maximum allowable LIHTC] rents. \_\_\_ of the \_\_\_ units (\_\_%) at the property have vouchers that are an average of \_\_% above [market/ max allowable LIHTC] rents. The risk is mitigated by the prevalence of voucher-holding tenants in the submarket and the history of accepting vouchers at the property, which has been verified via the rent roll. Therefore, if a voucher-holding tenant was to leave the property, management should be able to re-lease the unit at a similar rent without having a material effect on GPR. The tenants representing the voucher overhang have been residents at the property for an average of \_\_ years.

### California Tax Credit Allocation Committee (TCAC)

The property is encumbered by a Regulatory Agreement between the subject and the California Tax Credit Allocation Committee ("TCAC"). Per the regulatory agreement, at least \_\_\_ of the units must be occupied by tenants whose income is at \_\_\_% of AMI. The rents shall be restricted at not more than \_\_\_ of imputed income limitation. [Additionally, the site must offer the following service amenities for a minimum of \_\_ years: check Appendix A of the regulatory agreement for additional use restrictions]. The agreement runs for a period of \_\_\_ years and will expire after \_\_\_\_. In the event of any breach of violation of the terms of the Regulatory Agreement, the City may exercise various remedies against the Borrower including the collection of rents for application to the operating costs of the property, to debt service, to reimbursement for tenants who have been overcharged, or to assure long-term use of the property for Low Income housing. The Tax Credit Properties Rider was attached to the Loan Agreement so that a default under the Regulatory Agreement is a default under the loan. Per the Note, a non-recourse carve-out was included for any loss or damage suffered as a result of the Regulatory Agreement. Additionally, the Borrower and TCAC executed a Standstill Agreement, which imposes a 60-day standstill against TCAC’s right to enforce remedies under the Regulatory Agreement upon a Borrower default and shall give the Lender the right to cure any Borrower default under the Regulatory Agreement. The agreement terminates upon foreclosure or deed-in-lieu of foreclosure, but any tenant of low-income may continue to occupy such unit in accordance with the provisions of the agreement for a period of three years following such termination.

## **Seniors Housing Specific Risks/Mitigants**

### COVID-19 Impacts

Due to the COVID-19 pandemic, resident move-ins have decelerated due to fear of either contracting the virus or restricting access to family and friends due to state, local or operator policies. The proposition for increased socialization has diminished due to suspension of common area dining and other activities. Interim occupancy declines and increased payroll along with PPE and other costs associated with virus transmission mitigation are possible as a result of resident or staff COVID-19 outbreaks, reputational impacts, or short-term ban on admissions. Further, longer term impacts could result in higher cap rates due to changing investor demand and maturity risk for the Lenders. Over the last 90 days, the property experienced \_\_\_ resident and \_\_\_ staff COVID-19 cases.  Currently, the number of COVID-19 cases totals \_\_\_ residents and \_\_\_ staff members.  [If symptoms and/or number of deaths known, include here.] There is no current ban on admissions at the property and resident activities including (*list all available activities, i.e. in person tours, family visits, congregate dining, etc.)* are available.  Visions LTC reported [improving/deteriorating] trends for the County’s seniors housing COVID-19 cases.  The property scheduled vaccine clinics on \_\_\_\_ and \_\_\_\_. An estimated \_\_% of residents and \_\_\_% of staff have received the vaccine.  A COVID-19 Debt Service Reserve was required as outlined in the escrow footnotes.  In case the funds in the deferred maintenance or replacement reserves escrows prove insufficient, the sponsor has guaranteed sufficient deposits are made to those escrows as part of an additional COVID-19 limited guaranty. Additionally, [Lender/Appraiser/Engineer/Environmental Engineer] conducted a modified inspection consisting of enhanced lease audits/ virtual property tour/ evaluation of bank deposits or other proof of rent payments/ inspection of utility meters and utility bills/ review of on-site parking use relative to current occupancy and tenant base/the borrower provided a Borrower Certification of Property Condition. *Additional mitigating factors include age and condition of the property/ refinance of Freddie Mac loan originated \_\_ years ago. If a full in-person site inspection wasn’t possible describe the alternative steps that were taken, why those steps proved sufficient for this property, and what those steps helped to accomplish. If there were any steps taken that were possible due to the unique characteristics of the property, describe both.* *For loans with no or modified DSR, include the following sentence as the primary mitigant: “*The loan represents a \_\_\_% underwritten LTV with an amortizing DSCR of \_.\_\_x.”

### Appraised Value

*If the Value used to price or size the loan is less than the Appraised Value, identify this as a weakness to the transaction and mitigate with rationale of why the appraisal assumptions are different.*

## **COVID-19 Related Weaknesses**

### COVID-19 Inspection Related Impacts

Due to the COVID-19 pandemic, the [Lender/Appraiser/Engineer/Environmental Engineer] was/were unable to complete a full in-person site inspection. [A COVID-19 Debt Service Reserve was required as outlined in the escrow footnotes. /The loan represents a \_\_\_% underwritten LTV with an amortizing DSCR of \_.\_\_ x.] In case the funds in the deferred maintenance or replacement reserves escrows prove insufficient, the sponsor has guaranteed sufficient deposits are made to those escrows as part of an additional COVID-19 limited guaranty. Additionally, [Lender/Appraiser/Engineer/Environmental Engineer] conducted a modified inspection consisting of enhanced lease audits/ virtual property tour/ evaluation of bank deposits or other proof of rent payments/ inspection of utility meters and utility bills/ review of on-site parking use relative to current occupancy and tenant base/the borrower provided a Borrower Certification of Property Condition]. [Additional mitigating factors include age and condition of the property/ refinance of Freddie Mac loan originated \_\_ years ago].

* ***Tell the full story.*** *If a full in-person site inspection wasn’t possible describe the alternative steps that were taken, why those steps proved sufficient for this property, and what those steps helped to accomplish. If there were any steps taken that were possible due to the unique characteristics of the property, describe both.*

***For loans with no DSR,*** *include the following sentence as the primary mitigant: “*The loan represents a \_\_\_% underwritten LTV with an amortizing DSCR of \_.\_\_ x.”

# Property Overview

***Please do not repeat information needlessly. For example, if the capital improvements or recent renovations are discussed in the strengths section it is not necessary to restate. Provide new information as relevant and necessary but keep repetition to a minimum.***

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 any rental premiums achieved/anticipated.*

Common area amenities include [list amenities]. Unit amenities include [list amenities]*. [If applicable: Student (shuttle to campus/furnished units, etc.), Age Restricted targeted amenities (meals, shuttle services, etc.), etc.]*

*If the subject has Section 8 Voucher or other subsidy program tenants include:*

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

*Discuss any corporate, student or military concentrations >5%. Include the source of the concentration – the nearest University or military base. For senior properties, break out any Assisted Living, Alzheimer’s or Medicaid concentrations (%).*

*If the property is considered non-conforming:*

Per the Zoning Report dated \_\_\_\_\_, the property is zoned \_\_\_\_\_ and is considered to be a legal [conforming/non-conforming] use and [conforming/non-conforming] structure due to the following*: briefly outline deficiencies as described in the zoning report and include applicable information from the Reconstruction Clause.* Building law and ordinance insurance is required and a carve-out was added for any losses related to the non-conformance. There are [\_\_/no] outstanding zoning code violations, code enforcement cases, [and/or] fire code violations.

*If there are any access easements or agreements, consider and discuss the following:*

* *Discuss the relevant parties. With a borrower affiliate? Does the agreement run with the land?*
* *Dates and length of the agreement. Is it perpetual?*
* *Are the costs shared? What are the remediation options?*
* *Discuss any other terms of the agreement.*
* *Can the property operate without the agreement? Is the property advertised with amenities accessed through the agreement?*
* *Was a carve-out required?*

*If the property is a specialized property type (student housing, military, corporate or seniors), include distances to related campus, base, office or medical facilities. Provide additional details on the specialty drivers. Student properties –* The name of University has a year enrollment of \_\_\_\_\_. *Projected increases in future enrollment.* The University provides \_\_\_\_\_ on campus beds. Students are required/not required to live on campus. Discuss any plans the University has to build new on campus housing or other facilities expansions. [*If student include:* The property is rented by the bed/bedroom (and all bedrooms have lockable doors).]

## **For Manufactured Housing Communities**

*For Manufactured Housing Communities:*

The property has \_\_\_ pads of which \_\_ are single-section (\_\_\_% of total) and \_\_\_ are multi-section sites (\_\_\_% of total). As of the \_\_\_\_\_, (rent roll or management) reported \_\_ single section homes in-place and \_\_ multi-section homes in-place. The property reports \_\_\_ vacant pads (\_\_% of total) of which \_\_ pads are designated for single-section and \_\_\_ pads are designated for multi-section homes. There are \_\_\_ homes (\_\_\_% of occupied homes) owned by a borrower-affiliate, \_\_\_\_\_\_. Describe details especially if rentals. Historical vacancy of the property has ranged from \_\_ to \_\_ over the past three years. Management reports average tenancy to be \_\_\_years. *Describe leasing: MTM, Escalations, Etc. A carve out has been included for any losses related to the borrower-affiliate/borrower relationship.* [*If applicable*: In addition, the loan agreement includes Freddie Mac’s standard MHC Tenant Protections.]

IF RV component:

*\*Unit Mix/Rent Roll Notes. RV should be categorized as Efficiencies and have 0 rent attributable to GPR on the Rent Roll. RV should also not be considered in vacancy.*

The property has \_\_ full-service, [pull-through/back-in] RV sites. [Daily/weekly/monthly/seasonal/yearly] rates are available and total $\_\_/site (*list for each available rate)*. [*If applicable*:\_\_ of the RV tenants are on yearly leases] Management reports that the average tenancy for RV is approximately \_\_ months with peak rental times during (describe if seasonal). *Are the RV tenants primarily long-term and residential in nature or seasonal?* [*If applicable*: Management reports that RV tenants are usually seasonal workers and return yearly to the community.] ***If any RV tenants are located on MH pads, include the borrower’s plans to replace the RV tenants with MH tenants.***

Unit Mix Footnote:

Unit size is set to 100 square foot as the exact size of each pad site is not available.

## **For Unfunded Forwards**

The total estimated hard construction costs equal $\_\_\_\_\_\_\_\_\_\_\_\_\_ ($\_\_\_\_\_\_\_/unit), as per the Plan & Cost review prepared by [Engineering Firm Name] dated \_\_/\_\_/\_\_. Construction is expected to begin Month, Year, with completion scheduled for by Month, Year. [General Contracting Firm Name] firm will be the General Contractor. *Discuss the GC’s history, experience in the subject market, experience with the Sponsor, etc. Include any other details relevant regarding construction that are specific to this property or market.*

## **For Seniors Housing Properties**

The property is \_\_% private / \_\_\_% Medicaid pay. The unit mix consist of\_\_ units (\_\_%) Independent Living, \_\_\_ units, \_\_\_\_\_beds (\_\_\_%) assisted Living; \_\_\_ units, \_\_\_\_beds (\_\_\_%) Assisted Living with Alzheimer; and \_\_\_ units, \_\_\_\_beds (\_\_\_%) Skilled Nursing*. Comment on number / percentage of shared units and second residents, if applicable.*

*Discuss what is included in base rent (i.e. meals, transportation, housekeeping) by acuity type. Discuss how care is assessed, if available, the percent of residents at each care level.*

*For Seniors Housing Properties: Discuss all senior housing related leases in place at the subject (i.e. beauty salon, home health, physical therapy). If there are AL, ALZ or SN units at the property a Liability Assessment Report should be reviewed to describe the property's compliance with licensing and any material regulatory violations past or present. Minor violations that are repeated or fees that have been assessed might also raise to a level of commentary. Use the consultant's summary as well as the Borrower’s plan of correction on training, staffing levels, staff experience, regulatory compliance, resident assessments, and policies and procedures to help develop a concise mitigation of the issues identified. Confirmation from the Underwriter must be added to the SHLA section of the property section that states “*The licensed clinician confirmed infectious policies and procedures are appropriate and being implemented at the property.” *Look for the timing of any issues identified to see impact to property's historical or future cash flows.*

## **Insurance**

### Flood Zone

*If the property is located in a flood zone:*

[*Firm Name*] prepared a Flood Zone Certification for the subject dated \_\_/\_\_/\_\_\_\_, which states that the subject is located within Zone \_\_, an area [within/outside of] a 100-year floodplain. Flood insurance with business interruption coverage and evidence of adequate insurance coverage are required. The underwritten insurance expense, which is based on the [appraiser’s estimate/borrower’s budget/market comparables/etc.], includes the flood insurance coverage. *If it does not, explain. If the property is a Targeted Affordable Unfunded-Forward also include:* Upon completion of construction, the site will be evaluated for mandatory flood plain insurance and evidence of adequate insurance coverage will be required as a condition to conversion.

*If the property is a manufactured housing community located in a flood zone:*

[*Firm Name*] prepared a Flood Zone Certification for the subject dated \_\_/\_\_/\_\_\_\_, which states that the subject is located within Zone \_\_, an area [within/outside of] a 100-year floodplain. If the property Flood insurance [with business interruption coverage] is required. An escrow equal to XX months of EGI was collected in lieu of business interruption insurance. *If the borrower opted for a self-insurance program as an alternative to traditional flood insurance, provide details on the structure of the coverage.* The underwritten insurance expense, which is based on the [appraiser’s estimate/borrower’s budget/market comparables/etc.], includes the flood insurance coverage for building, amenities, and structures owned by the borrower. Per the terms of their leases, tenants are required to obtain flood insurance for tenant-owned homes.

# Property Inspection Overview

The property was inspected [physically/virtually] by Freddie Mac/Seller Servicer Name on \_\_/\_\_/\_\_. *If the inspection was conducted virtually, list who was physically present at the property.* The property was \_\_% occupied at the time of the inspection and was offering concessions in the form of (e.g. one month free on 13-month leases; $500 off 800 SF 1BR layouts; etc.). “The subject was noted to be in condition with no/minimal deferred maintenance items and no down units.” Property management provided a schedule of planned capital improvements that addressed identified priority repairs consistent of \_\_\_\_. These items will be addressed in the next XX months.” The [*if applicable* on-site] property manager has been with the property for \_ years/months. The subject is well located relative to nearby demand drivers/surrounding land uses/etc. including .

*Comment on the following, if applicable (share what you heard and saw on-site):*

* *Timelines for any major repair or maintenance items (roof replacements, significant asphalt repavement, etc.)*
* *Slow leasing seasons mentioned by management*
* *New construction/supply and management’s comments on any impact*
* *Whether any tenants receive subsidy payments*
* *Crime/security measures*
* *Tenant concentrations (military, seniors, student, corporate, etc.)*
* *Competition*
* *Persistent maintenance issues and plans to address*
* *Negative publicity*
* *If non-contiguous or phased property with shared leasing, address leasing approach*
* *For rural locations and tertiary markets, it’s helpful to explain why people live in this area/neighborhood (price point/access/major employers/school district/etc.)*
* *Properties > 500 units, summarize on-going maintenance strategy*
* *Recent management changes or impact of new leasing software*
* *For Seniors Housing Properties: See the Overview Tab in the Freddie Mac excel inspection or the Final Rating Comment Box in the HappyCo application for any noteworthy comments regarding the operation of the property.*

# Commercial Tenants

*Name major tenants (note if they are investment grade) and the associated % of commercial NRI and describe. List lease terms including expiration, expenses reimbursements, options, contractual rent increases, etc.*

*If there are vacant spaces – address any LOI’s, management’s plan to lease-up, allocated tenant improvements/leasing commissions.*

Underwritten commercial net rental income (NRI) accounts for \_\_\_% of estimated gross income (EGI)*.* The property contains \_\_\_ commercial units totaling \_\_\_\_ SF of commercial space. Of the commercial units, \_\_% of units are occupied.

Tenant Name has occupied a commercial unit at the property since [*original move in date*]. *If the business function of the commercial tenant is unclear, please describe.* The [NNN/Gross/Mod Gross/Base Plus/Net/etc.] has an expiration date of \_\_/\_\_/\_\_\_\_ and a \_\_ year extension option. The base rent is $\_\_\_/month with rent increases of \_\_%/year. As of the property inspection dated \_\_/\_\_/\_\_\_\_, the tenant is open for business and is current on rent. *If the tenant is not current on rent, discuss why the tenant has fallen behind and whether the borrower has been working with the tenant on a payment plan.*

# Cash Flow Footnotes – Income

**Note:** Unless otherwise noted, all references to the rent roll refer to the rent roll dated \_/\_/\_\_, and all references to the [T-12/T-3 annualized/T-1 annualized] trailing operating statement refer to the statement ending \_/\_/\_\_.

*If referring to collections through a month more recent than the operating statement:* Unless otherwise noted, all references to the rent roll refer to the rent roll dated \_/\_/\_\_, all references to [T-12/T-3/T-1] collections information is through \_/\_/\_\_, and all references to the [T-12/T-3 annualized/T-1 annualized] trailing operating statement refer to the statement ending \_/\_/\_\_.

*Explain why historical operating statements are not available, if the T-12 is not an accurate representation of current operations, or if an operating statement is actually less than a T-12 (T-3 annualized, etc.).*

*If any income or expense line item is underwritten based on something other than the most conservative option, explain. For example, why were you comfortable assuming that income would increase beyond the most recent rent roll? Why would expenses decrease to a lower total than historical expenses?*

## **Gross Potential Rent**

Underwritten GPR is based on the rent roll annualized, with vacant and model units at market rent. The property’s average rent of $\_\_\_\_\_\_/unit is [less than/greater than/consistent with] the REIS Quarter/Year submarket rent of $\_\_\_\_\_\_/unit. *Also use submarket vintage rents for support if applicable.* The property’s average rent is [less than/greater than/consistent with] the appraiser’s concluded market rent of $\_\_\_\_\_\_/unit.

*Address if the average rent is above market. If unit sizes are larger, provide rent comparison to market on a PSF basis. If the appraiser’s GPR was estimated using a method other than by using the most recent rent roll with vacant units at market rent, discuss the appraiser’s reasoning. Additionally, discuss how you became comfortable with the appraiser’s reasoning and approach.*

## **Vacancy**

Physical vacancy is underwritten to \_\_\_%. The property was \_\_\_% physically vacant as of the rent roll. Per REIS Quarter/Year, the submarket vacancy is \_\_\_% and the submarket vacancy for similar vintage properties (*Year-Year*) is \_\_\_%. The appraiser concluded a vacancy rate of \_\_\_%. Average historical vacancy has ranged \_\_\_% to \_\_\_% from Year to Year and averaged over the T-12. *Address any major vacancy fluctuations, seasonality, student pre-leasing, property management change. If unit renovations caused high vacancy, address # of units off-line during each statement.*

*If historical GPR is reported net of vacancy provide the T-3 average vacancy, as well as the average annual vacancy for the past three years.*

## **Concessions/Bad Debt/Collections**

Underwritten at \_\_% of GPR. Concessions underwritten [at \_.\_%] based on the [rent roll, T-3, or T-12]. As of \_\_/\_\_/\_\_, concessions offered at the property are \_\_\_\_. Bad debt underwritten based on the [rent roll, T-3, or T-12]. *Discuss concession/bad debt trends and explain underwriting conclusion. Note any concessions offered at time of underwriting or if property is on an LRO system. If bad debt is 4% or greater, address tenant qualification and collection standards. Discuss the appraiser’s estimates*. Economic vacancy is underwritten at \_\_%, which is consistent with the appraiser’s conclusion of \_\_\_\_%. *If not, state reasons*. Underwritten NRI ($\_\_\_\_\_\_/month) is supported by the [T-3 ($\_\_\_\_\_\_/month), T-12 ($\_\_\_\_\_\_/month) *and/or* the rent roll ($\_\_\_\_\_\_/month)].

## **Short Term Premiums**

Discuss what is included in underwritten short-term premiums.

## **Commercial Income**

Underwritten at \_\_% of EGI based on current leases less [the greater of actual or market vacancy]. *Note any reimbursements here or in other income. Describe how TI/LC are accounted for.*

## **Other Income**

Underwritten based on the T-12. Other income items consist of \_\_\_\_.

*If not in line with T-12, appraisal, budget explain. If RUBS > utility expense, explain. Explain any major increases in other income line items in the historical statements. If available, list what’s included in other income such as application fees, late fees, administrative income, pet rent, lease termination fees, month to month fees, etc.*

*Additionally, if green savings were applied due to the borrower participating in the green-up program, discuss the impact on utility reimbursements.*

## **Effective Gross Income**

***Include for Targeted Affordable Housing Properties and Seniors Properties.***

Underwritten ($\_\_\_\_\_\_/unit) in line with the T-12 ($\_\_\_\_\_\_/unit) and appraiser’s concluded EGI ($\_\_\_\_\_\_/unit). *If not, indicate assumptions.*

## **Targeted Affordable Housing**

### GPR

### If the property has a LURA only – no vouchers or HAP contract:

Underwritten GPR of $\_\_\_\_\_\_ is based on the rent roll annualized, with vacant and model units at [maximum LIHTC rents, which the appraiser concluded are achievable/ the appraiser’s concluded achievable LIHTC rents]. The underwritten rent for each unit is at or below the appraiser’s concluded market rent and the maximum allowable net LIHTC rent. The total UW GPR is (*compare to appraiser’s GPR, explain deviations*). *Address if rent is above market.*

The property is rent and income restricted under the \_\_\_\_\_\_\_\_\_\_\_\_\_ Regulatory Agreement (*if multiple, list each*), which requires \_\_\_% of the units to be restricted to [*discuss restrictions].*

#### If the property has a Tenant-based housing choice voucher

Underwritten GPR of $\_\_\_\_\_\_ is based on the rent roll annualized, with vacant and model units at [maximum LIHTC rents, which the appraiser concluded are achievable/ the appraiser’s concluded achievable LIHTC rents]. \_\_ units are subsidized by a tenant-based housing choice voucher, and for \_\_ of these units, the voucher results in total rent that is on average \_\_% greater than max LIHTC. [Voucher overhang in the amount of $\_\_\_ was removed from the underwritten GPR/ \_\_% of the voucher overhang, an amount of $\_\_\_, is included in the underwritten GPR. The underwritten rent for each unit is at or below the appraiser’s concluded market rent and the maximum allowable net LIHTC rent. The total UW GPR is (*compare to appraiser’s GPR, explain deviations*). *Address if rent is above market.*

#### If the property has 100% HAP Contract

Underwritten GPR of $\_\_\_\_\_\_ is based on the rent roll annualized, which reflects [the in-place HAP contract rents/ the approved HAP contract rents that will be in place on the date of closing], with vacant units at the applicable HAP rent. *If there is a manager unit not subsidized by the HAP contract, note whether rent for that unit is included in the UW GPR.* The HAP Contract covers \_\_% of units, with HAP contract rents as follows: $\_\_\_\_\_ for the \_\_-bedroom units; $\_\_\_\_\_ for the \_\_-bedroom units; $\_\_\_\_\_ for the \_\_-bedroom units; (etc.).

*If HAP Overhang:* The underwritten HAP rents ($\_\_\_\_\_/unit/month) represent an overhang of the appraiser’s concluded post-rehab rents ($\_\_\_\_\_\_/unit/month) and the average LIHTC rents ($\_\_\_\_\_\_/unit/month).

#### If the property has a partial HAP contract or mixed-income restrictions

Underwritten GPR of $\_\_\_\_\_\_ is based on [the rent roll annualized/ the borrower’s projected rents]. \_\_ units (\_\_%) are subsidized by a long term project-based HAP contract, and were underwritten to [the in-place HAP contract rents/ the approved HAP contract rents that will be in place on the date of closing], with vacant units at the applicable HAP rent. \_\_ units are unsubsidized [but income and rent restricted/and unrestricted], and were underwritten based on the rent roll annualized, with vacant and model units at [maximum LIHTC rents, which the appraiser concluded are achievable/ the appraiser’s concluded achievable LIHTC rents]. The HAP contract rents are as follows: $\_\_\_\_\_ for the \_\_-bedroom units; $\_\_\_\_\_ for the \_\_-bedroom units; $\_\_\_\_\_ for the \_\_-bedroom units; (etc.).

*If HAP Overhang:* The underwritten HAP rents ($\_\_\_\_\_/unit/month) represent an overhang of the appraiser’s concluded post-rehab rents ($\_\_\_\_\_\_/unit/month) and the average LIHTC rents ($\_\_\_\_\_\_/unit/month).

#### If the property is a Forward

Underwritten GPR of $\_\_\_\_\_\_ is based on the [appraisal/Borrower’s Budget/ concluded rents].(*Pull from templates above as appropriate.* As part of the renovations, the Subject will be rent and income restricted under the \_\_\_\_\_\_\_\_\_\_\_\_\_ Regulatory Agreement (*if multiple, list each*), which requires \_\_\_% of the units to be restricted to [*discuss restrictions*].

## **Seniors Housing**

### GPR

Also include the following:

*If there is Medicaid or Medicare -* Underwritten Medicaid or Medicare is based on the rent roll annualized, with vacant and model units at market rent. *Provide* *income analysis to include rent versus subject property private pay and appraiser’s estimate. Also, comment on percentage of EGI and historical collection. Analysis of state reimbursement sustainability and funding timeline should be included if material amount is underwritten. Account receivable aging should be included in the review and amounts detailed if greater than 90 days past due.*

### Vacancy

Also include the following:

Property vacancy is underwritten at \_\_%, which is a blend of individual acuity vacancy estimates of [*include as necessary \_\_% (IL), \_\_% (AL), \_\_% (MC), and \_\_% (SN)*]. *Address individual acuity vacancies were estimated based upon historical performance and market averages, while also taking into consideration the impact on overall NRI*. Prior to the pandemic outbreak in March 2020, occupancy at the property averaged \_\_%, and for the 12 months ending February 2021 occupancy averaged \_\_\_%. Over the last three months occupancy has [increased/decreased/stabilized] to an average of \_\_\_%.

### Total Seniors Housing Income:

#### ***Underwritten based on the [T-12/Appraisal/Borrower’s Budget].***

# Cash Flow Footnotes – Expenses

*If referencing Freddie Mac, borrower portfolio, or appraisal expense comparables, provide the range and average. Keep in mind that the comp set may need to be refined or outliers explained if the range is very wide.*

***Note if the borrower provided expense comparables in the local market. For example:***

The borrower provided \_\_ expense comparables located within \_\_\_ miles of the subject. The unit counts ranged from \_\_ to \_\_, with vintages ranging from \_\_ to \_\_. The comparables’ expenses ranged from $\_\_/unit to $\_\_/unit, averaging $\_\_/unit.

## **Real Estate Taxes**

Underwritten based on [the appraiser’s estimate/current tax liability/assessment upon sale/ T-12 inflated by 3.0%], which is greater than/less than/consistent with the appraiser’s estimate/property’s historical expense. *If not, state reasons. Include details such as how the taxes are calculated, appraiser’s methodology, when the property is due for reassessment, comparison to the appraiser’s tax comparables. Discuss any tax abatements, term, phase out, calculation and requirements as they apply.* The actual year tax liability was \_\_\_\_*.* [*If applicable:* The borrower-provided expense comparables had real estate taxes ranging from $\_\_/unit to $\_\_/unit, averaging $\_\_/unit.]

## **Insurance**

Underwritten based on the [actual insurance premium, T-12 inflated by \_\_\_%]. [Coverage is provided via a blanket insurance policy.] [*If applicable:* The borrower-provided expense comparables had insurance expenses ranging from $\_\_/unit to $\_\_/unit, averaging $\_\_/unit.]

## **Utilities**

Underwritten based on the T-12 inflated by \_\_\_%. *If not in line with T-12 benchmark or appraisal, budget explain.*  [*If applicable:* The borrower-provided expense comparables had utilities expenses ranging from $\_\_/unit to $\_\_/unit, averaging $\_\_/unit.] *Please note if tenants are directly metered for any utilities, as well as any other reasons why the expenses might be significantly below market.*

*If the property is participating in the Green Advantage Program, include the following in the Utilities Cash Flow Footnote:* The utilities were underwritten based on the [T-12/T-12 inflated by \_\_%/T-12 reduced by \_\_% of the \_\_% projected savings based on the Green Assessment Report]. Per the Green Assessment Report, the green improvements that the borrower has elected to complete will reduce the energy and water usage at the property by \_\_.\_% and \_\_.\_%, respectively, resulting in projected annual cost savings for the owner and tenants totaling $\_\_\_\_ and $\_\_\_\_, respectively.

## **Repair & Maintenance**

Underwritten based on the T-12 inflated by \_\_\_%. *If not in line with T-12 benchmark or appraisal, budget explain.* *If UW below historical statements due to Cap Ex; break out the line items and associated dollar amounts that were excluded from underwriting. If underwritten to the borrower’s budget due to streamlined operations – identify items where cost savings will be realized.* [*If applicable:* The borrower-provided expense comparables had R&M expenses ranging from $\_\_/unit to $\_\_/unit, averaging $\_\_/unit.]

## **Management Fee**

Underwritten at \_\_% of EGI, based on the actual contract rate with the [borrower-affiliated/third-party] management company. The management fee is fully subordinated to the mortgage. [*If applicable:* The borrower-provided expense comparables had management fees ranging from \_\_% to \_\_% of EGI, averaging \_\_% of EGI.]

*If based on the appraiser’s estimate:* Underwritten at \_\_% of EGI, based on the appraiser’s estimate. The actual contract rate with the [borrower-affiliated/third-party] management company is \_\_%. The management fee is fully subordinate to the mortgage.

## **Payroll**

Underwritten based on the [payroll schedule, T-12 inflated by \_\_\_%]. The borrower provided a payroll schedule which consisted of \_\_ employees including a *property manager/maintenance supervisor, leasing agent, etc.* ($\_\_\_\_\_/year). *List each employee. If not in line with T-12 benchmark, appraisal, budget explain; provide support including payroll schedule, borrower expense comps, and specific salary/headcount changes taking place.* [*If applicable:* The borrower-provided expense comparables had payroll expenses ranging from $\_\_/unit to $\_\_/unit, averaging $\_\_/unit.]

## **General & Administration**

Underwritten based on the T-12 inflated by \_\_\_%. *If not in line with T-12 benchmark, appraisal, budget explain. Add specific support for why it will be lower than historical. (e.g. if advertising is reduced, what line item or type of marketing is the borrower planning to eliminate?)*  [*If applicable:* The borrower-provided expense comparables had G&A expenses ranging from $\_\_/unit to $\_\_/unit, averaging $\_\_/unit.]

## **Miscellaneous**

*Discuss what is included in the miscellaneous expense, compare to historical statements.*

## **Ground Rents**

Underwritten at $\_\_\_\_ annual payment per the ground lease agreement. *If the ground lease includes escalating payments, discuss the payment structure.*

## **Replacement Reserves**

Underwritten at $\_\_\_\_\_\_/unit/year, which is supported by the PCA estimate of $\_\_\_\_\_\_/unit/year.

*If the borrower made an initial deposit to reduce the annual replacement reserve:*

The borrower made an initial deposit of $\_\_\_\_ into the Reserves for Replacement escrow to reduce the annual deposit from $\_\_\_/unit/year as recommended by the PCA to $\_\_\_/unit/year. **Seniors Housing

Total Seniors Housing Expenses**

Underwritten based on T-12 inflated by \_\_\_%.

The impact of COVID-19 related operating expenses totaled $\_\_ /unit over the last 12 months and $\_\_\_\_ /unit over the last 3 months reflective of PPE supplies, testing, and increased or temporary payroll. The underwritten occupancy of \_\_% and COVID expenses of $\_\_\_/unit reflect the most recent trends and is expected to improve due to the recent vaccinations. Based on the underwritten NOI, which is \_\_% [greater/less than] the T-12, breakeven results include \_\_\_% physical occupancy, \_\_% decreased rents, and \_\_\_% increased operating expenses.

### Total Expense Analysis

Underwritten ($\_\_\_\_\_\_/unit or \_\_\_% of EGI) in line with the historical average ($\_\_\_\_\_\_/unit or \_\_\_% of EGI), the T-12 ($\_\_\_\_\_\_/unit or \_\_\_% of EGI), and appraiser’s estimate ($\_\_\_\_\_\_/unit or \_\_\_% of EGI). *If not, indicate assumptions*.

*Complete using table following:* Per ASHA’s State of Seniors Housing Report 2020, the operating expense margin for Property Typeproperties range from **\_\_\_%** (*lower quartile*) to **\_\_\_%** (*upper quartile*) with a median of **\_\_\_\_%**. Given the subject’s *[age, market position, quality and rents, etc.]*it is appropriate for the subject to have a margin that is close to the [highest/median/lowest]of the responding Property Typeproperties across the United States.

Expense Margins by Property Type1:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| For Profit Communities Only | IL | IL/AL | IL/AL/MC | AL WITHOUT MC | AL WITH MC | MC | CCRC |
| Upper Quartile | 82.8% | 87.2% | 89.8% | 92.1% | 95.1% | 91.1% | 100.2% |
| Median | 65.2% | 70.8% | 70.9% | 72.6% | 73.7% | 73.7% | 81.2% |
| Lower Quartile | 53.7% | 55.6% | 59.1% | 57.8% | 61.3% | 61.3% | 65.4% |

1Expense margins in this table are calculated as the inverse of the operating margins contained in ASHA’s State of Seniors Housing Report 2020 from table 13.1.

# Borrower Overview

***Please do not repeat information needlessly. For example, if the sponsor’s/guarantor’s experience, net worth, or SREO is discussed in the strengths section it is not necessary to restate. Provide new information as relevant and necessary but keep repetition to a minimum.***

The borrowing entity is Borrowing Entity Name, a single-purpose, Formation State Entity Type. The key sponsors for this transaction are \_\_\_\_\_, \_\_\_\_\_, etc. The carve-out guarantors for this transaction are \_\_\_\_\_, \_\_\_\_\_, etc.

*Discuss how control flows from the borrowing entity to the guarantor and key sponsors.*

*Include if the borrowing structure involves a Delaware Statutory Trust:* The initial depositor to the DST is \_\_\_\_\_. At closing, the borrower entered into a master lease with \_\_\_\_\_, an entity ultimately managed by the \_\_\_\_\_. \_\_\_\_\_ is the DST Manager and Signatory Trustee and is also ultimately managed by the \_\_\_\_\_.

*Discuss the individual sponsors'/guarantors’ roles and relationship to the borrowing entity. Include a brief description of the organization’s business model and real estate experience. Provide detail on any issues/deficiencies or unusual aspects of the borrowing structure.* Per the financial statements dated \_\_/\_\_/\_\_, [name of borrower] reported a net worth and liquidity of $\_\_\_\_\_\_ and $\_\_\_\_\_\_, respectively. *If material, discuss any contingent liabilities (view guidelines and write-up below).* Per their real estate owned schedule dated \_\_/\_\_/\_\_, [name of sponsor] reported ownership interest in list properties located in list cities or states. The portfolio reflected an overall LTV and DSCR of \_\_\_% and \_.\_\_x, respectively. *Include information on significant nearing loan maturities.*

*Discuss any underperforming properties on the schedule of real estate owned. Include the reason for the poor performance, as well as the sponsor’s plans to improve the property.*

*If the sponsor is a new or recent borrower to Freddie Mac discuss other lending relationships, borrower’s operational track record, specific examples of specific investment strategies executed (especially as it relates to the particular deal).*

*Add if Applicable:*

The [guarantor/sponsor] is a repeat Freddie Mac [guarantor/sponsor], having completed XX transactions in the since Year, totaling $\_\_\_\_\_ in UPB. The loans have paid as agreed.

*If the loan has preferred equity: address details including if it is soft pay or hard pay. Discuss the Standard Trigger Event examples*:

1. Failure to pay the preferred return (include details on specific dates, return %, etc.)
2. Negligence or willful misconduct of Manager
3. A default by a Manager affiliate under the property management agreement
4. Loss of a “key person” in Manager
5. Manager’s failure to make a capital contribution required by the Governing Agreement
6. Manager’s failure to comply with an approved budget, operating plan or other required administrative protocol
7. Manager’s failure to comply with “major decision” provisions in the Governing Agreement which require Equity Member’s approval
8. The institution of any legal proceedings against Manager
9. Manager filing for bankruptcy or other creditor’s rights protection

 *Discuss any prior credit issues concerning the borrower, sponsor, or guarantor. Include the circumstances, why the 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.*

*Discuss any negative press concerning the borrower, sponsor, or guarantor. Describe articles containing negative press including the timing, nature of claims, and the resolution of claims such as clearing all code violations, installing security measures, or resolving all tenant complaints.*

*Discuss any pending litigation concerning the borrower, sponsor, or guarantor. 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. Discuss insurance coverage limits and whether the carrier has assumed defense. Include any other details relevant to whether the subject litigation will materially impact the borrower/guarantor/mortgaged property. How will the worst-case scenario impact the sponsor/guarantor, and materially impact the property.*

*If there are no issues, insert the following sentence:* No material, derogatory credit or litigation issues were noted for the sponsor or borrower.

## **Low Income Housing Tax Credits Investor**

Name of LIHTC Investor will serve as the [Special Limited Partner/Limited Partner/Tax Credit Investor] in the transaction. Name of LIHTC Investor is a repeat Freddie Mac Tax Credit Syndicator, having raised more than $\_\_\_\_\_ in equity since Year*,* on more than \_\_\_\_properties throughout United States/state/region/city/MSA/submarket.

*If not a repeat Freddie Mac Tax Credit Syndicator, provide additional details on their experience with LITHC syndication and affordable properties.*

## **For Seniors Housing Properties**

*For Seniors Housing Properties*: *If there is an operating lease include a description of the leasee/operator, affiliation with borrower, term, lease payment, and lease payment coverages in the borrower section. If not affiliated with borrower, discuss experience at subject property and other properties and licensing or certifications are in good standing.*

# Property Management Overview

## **Borrower-Affiliated Management**

The property is managed by Management Company Name, a borrower-affiliated management company. The principals of the management company have been in the real estate industry since \_\_\_. Its portfolio includes list property types managed. It currently manages units in list states or region of operation*,* with units in the local area.

## **Third-Party Management**

The property is managed by Management Company Name, a third-party management company. The principals of the management company have been in the real estate industry since ­­­\_\_\_. Its portfolio includes list property types managed. It currently manages units in list states or region of operation, with units in the local area.

## **For Seniors Housing Properties**

There are \_\_ core leadership positions at the property. There are \_\_\_ vacant positions currently at the property (*provide the type of positions*). There has been turnover in \_\_\_ of \_\_\_ key management positions within the last year*. If turnover has been high, comment on why. New hires within the last 12 months include: \_\_\_\_\_\_(provide number of months at property and number of years in Senior Housing).*

*List all Director Positions and tenure at property or industry of each from Liability Assessment Report or management assessment information. Be sure ED background is mentioned if at the property less than 12 months.*

Management oversight at the facility includes visits every \_\_ months from\_\_\_\_\_ *(list corporate positions).* Quality Assurance (QA) audits are conducted by \_\_ when they visit the community \_\_\_\_\_\_*(enter how often they are conducted).* The audits consist of *\_\_ (describe).*

*For Seniors Housing Properties that require a Management Assessment Report:*

*If a management assessment report is required based on the amount of the loan, it should be listed. It should describe the property's regional and corporate structure to include an org chart and current vacancies in the senior management. Other information such as the technology platform and quality insurance program to monitor the clinical operations should be considered when detailing the summary of the report. Look for the timing of any issues identified to see impact to property's historical or future cash flows.*

# Appraisal Overview

*If applicable, this section should address the following:*

* Confirm the appraiser has acknowledged any rent restrictions encumbering the property.
* Extraordinary assumptions or hypothetical conditions that impact the appraised value.
* Address whether the appraisal considered loss-to-lease, as well as any significant differences between the appraiser’s vacancy assumptions and actual/historical vacancy at the property.
* If the appraiser used 100% market rents without loss-to-lease, instead of in-place rents and vacant units at market rent, discuss the appraiser’s support and reasoning.
* If the appraiser included multiple values, include as relevant. For example, As-Is value, As-Restricted value, Unrestricted At-Market Value, As-Stabilized value, etc.
* Discuss the appraiser’s cap rate conclusions, how they arrived at their conclusion, as well as any unusual factors that may have impacted the final cap rate. Also discuss whether the appraiser’s cap rate is reasonably supported. If the cap rate isn’t supported by the comparables discuss the appraiser’s reasoning.
* Sales history of the property (purchased out of foreclosure, purchase price inconsistent with the appraiser’s estimate, etc.)
* Whether any physical or legal issues impact the valuation and to what extent (e.g., ground leases, commercial leases, shared access agreements, shared amenities, regulatory agreements, etc.)
* If value was attributed to a tax abatement, note the $ amount attributed to the value, the years of tax savings incorporated into the DCF approach and the discount rate the appraiser used.
* For unstabilized properties, discussion of lease-up, loss-to-lease, concessions, absorption, unusual obsolescence, cost of repairs, etc.
* If significant commercial space is present at the property, note if the appraiser applied a different cap rate on the commercial space income or used a blended cap rate approach.
* If the subject is a manufactured housing community, confirm that the appraiser did not include any income or value from borrower-affiliate owned homes, as well as any goodwill or intangible value. If any was included, an alternative value with these excluded is needed.

## **Green Advantage Program**

*If the property has a Green Advantage Program in place, also include the following in the Appraisal Comments:*

The appraiser concluded an As-Is Value of \_\_\_\_\_ based on the completion of the energy efficient improvements identified in the Green Assessment Report dated \_\_/\_\_/\_\_, representing an \_\_% increase over the current As-Is Value of \_\_\_\_\_\_\_.

## **Rent Restrictions**

If the subject has any rent restrictions encumbering the property, *also include the following in the Appraisal Comments:*

The subject is encumbered by a [LIHTC agreement/LURA/rent control/etc.] that restricts \_\_\_ of the units to tenants at or below \_\_\_% of AMI, and \_\_\_ of the units to tenants at or below \_\_% of AMI, etc. The restrictions last for \_\_\_ years, and expire Month, Year. The concluded market rents of $\_\_\_\_ are [above/below/in line] with the maximum allowable rental rates of $\_\_\_\_\_.

## **Unfunded Forwards**

For Targeted Affordable Unfunded Forwards, *also include the following in the Appraisal Comments:*

[Appraisal firm name] prepared an appraisal of the subject with a valuation dated \_\_/\_\_/\_\_. The appraisal included several valuations based on the [unimproved land/improved land without income restrictions/improved land with income restrictions/etc.]. The scenarios included effective values dated as of the projected construction completion date, \_\_/\_\_/\_\_, as well as the projected stabilization date, \_\_/\_\_/\_\_. As the Property will be subject to income restrictions post-conversion, the restricted scenarios of value were given primary consideration.

## **Seniors Housing Properties**

Seniors Housing is an operational real estate class that may derive a considerable amount of its value from business operations (intangibles). The Appraiser identified the real estate value (land + improvements) at $\_\_\_\_, while the business operations (intangibles) value was $\_\_\_, or \_\_% of the total appraised value.Discuss the portion of the business (intangible) value in comparison to the overall value. What are the barriers to obtain entitlements such as zoning and licensing; for example, higher barriers might explain the higher intangible value. Other intangible values include ongoing business continuity as developed by the operator/ staff processes and procedures and goodwill.

The underwritten implied cap of \_\_% was \_\_ bps below the market cap which reflected the temporary cash flow deficits caused by COVID-19. One additional measure is the loan’s debt per unit of $\_\_ in relation to replacement cost which was reasonable.

# Sales/Rent Comparables Overview

*If the property has a unit makeup, either in size or type, significantly different than the comparables discuss how that impacted the valuation. Include the appraiser’s reasoning for including comparables significantly different than the subject.*

*Address whether any of the comparables are impacted by any rent restrictions or regulatory agreements that may impact property operations or performance, or anything else that will impact the comparables effectiveness as an actual comparable.*

*If applicable, address the following:*

* Check acceptability of comparables utilized in the appraisal (sales, rent, land, and expense).
* Discuss any material deviations from the comparables or any unusual assumptions. This can include differing cap rates, occupancies, overall value or value per unit, rents per unit, or overall unit makeup. It should be clear why the comparables were used despite the deviations.
* If the property is student, rent restricted, seniors, etc. – address if the sales or rent comparables are the same or different property type. Also address any unique features present at the subject.

*If the subject is a manufactured housing community, address whether the comparables have a similar makeup in terms of borrower-affiliate owned homes or RV/Park models.*

## **For Targeted Affordable Housing properties:**

Note whether the comparable properties have similar restrictions as the subject.

**Sales Comps:**  Sales comparables \_\_\_, \_\_\_, and \_\_\_ are affordable properties. [Sales comparables \_, \_, and \_ are market rate properties.]

**Rent Comps**: Rent comparables \_\_\_, \_\_\_, and \_\_\_ are affordable properties. [Rent comparables \_\_\_, \_\_\_, and \_ are market rate properties.]

## **For Seniors Housing Properties**

* Discuss the property’s actual rent outliers such as shared unit rent and whether the care charges or government subsidies (i.e. Medicaid/Medicare) are included. The average rent by acuity for the subject property should be well supported by the appraiser’s adjusted rent comps. Discuss any significant adjustments to the actual comps.
* For Seniors Housing Properties: Discuss the acuity mix percentages and any portfolio sales between the sale comps and the property.

***For Seniors Housing Include the following paragraph:***

The market for Seniors properties is more national in scope than for conventional multifamily properties and appraisals typically include comparable sales in different geographic locations that are similar in-service type and property quality. Cap rates do not vary greatly from location to location; rather they vary based on service level. In addition, there have not been enough recent sales in most properties’ markets areas to complete a comparable sales analysis using only sales in the same market.

# Engineering Overview

*Discuss any unusual or material engineering issues impacting the property, as well as any steps taken during underwriting to mitigate any risks or concerns.*

If an immediate repair reserve was not required, please note in the funding conditions rather than the engineering write up.

*Include if applicable:* Per the Borrower Certification of Completion dated \_\_/\_\_/\_\_, all repairs are completed.

*Special attention should be given to building materials identified Borrower Certification of Property Physical and Environmental Condition (e.g., aluminum wiring, fire-retardant-treated [“FRT”] plywood, or polybutylene piping) and a summary should be provided detailing the engineer’s conclusion about the acceptability of these materials as well as any recommendations/cost to cure.*

*It is important to confirm that the report has not identified any open or unresolved issues (i.e., additional inspections needed) and that the conclusions are clear, concise, and actionable.*

## **Green Advantage**

*If the property has a Green Advantage Program in place, include the following in the Engineering Comments:* The borrower provided an escrow totaling \_\_\_\_\_ at closing for the replacement of [*list green improvements*] at the property, to be completed within \_\_ months of closing.

## **Wood-Damaging Organism**

*If a Wood-Damaging Organism (WDO) report identified presence of infestation or other related issues:*

The WDO consultant prepared a wood-damaging organisms report dated \_\_/\_\_/\_\_\_\_, which [did/did not] identify any presence of infestation. *If the report did identify infestation, such as dry rot, wood-damaging organisms, etc., include the location of the findings, remediation costs, and whether the remediation was identified by the engineer and included in any scope of existing rehab/priority repairs. Include if one-time remediation costs are in place or if a treatment contract renewal is in place.*

*If a Wood-Damaging Organism (WDO) report was required and the property is a Targeted Affordable Unfunded-Forward:*

A Wood-Damaging Organism report will be provided at conversion.

# Environmental Overview

***Summarize IF*** *the environmental consultant identifies the presence of certain Recognized Environmental Conditions (RECs) or recommendations. To the extent testing is incomplete or in process, a recommendation for course of action should be clearly laid out to include timeframes, possible escrows, etc. Confirm regulatory closure of any RECs.*

*Discuss any unusual or material environmental issues impacting the property, as well as any steps taken during underwriting to mitigate any risks or concerns.*

## **Radon**

*If the initial radon testing was completed by the time of loan origination, include the following:*

The engineer identified radon samples in \_\_\_ units that exceeded the EPA action level for radon in residential dwellings. Per the Multifamily Loan and Security Agreement dated \_\_/\_\_/\_\_\_\_, a radon screening for this unit must be completed within 30 days of closing, and radon testing for this same unit for no less than a 91-day period must be completed within 180 days of closing. Should the long-term testing indicate a need for radon mitigation, the borrower will be required to provide a radon remediation deposit equal to 150% of the total costs. The remediation will be required to be completed within 90 days of the notice.

*If the initial radon testing was not completed by the time of loan origination, include the following:*

Per the Multifamily Loan and Security Agreement dated \_\_/\_\_/\_\_\_\_, all Radon testing, screening, and remediation must be completed within 365 days of closing.

# Seismic Assessment Overview

*If further analysis or insurance is not required:*

According to the USGS Unified Hazard seismic tool, the property has a PGA of 0.Xg which is below the threshold of 0.15g for further seismic analysis or insurance. As a result, Earthquake insurance will not be required.

*If the property is in a Seismic Zone:*

Due to the Subject’s PGA of X.XXXg being above the threshold of 0.15g, a Probable Maximum Loss (PML) report is required. The PML site analysis conducted by [*Name of Firm*] concluded to a Median Loss Estimate (PML 50 or SEL) of \_\_% and a \_\_% Confidence Loss Estimate (PML90 or SUL) of \_\_%. Based on the conclusion that the SEL estimate is \_\_%, [insurance is/is not required].

# Market Analysis Overview

*If the property is a Student Property, use Axiometrics for market/submarket data.*

The property is located in the city of \_\_\_\_\_\_, \_\_\_\_\_\_ County, \_\_\_\_\_\_ (state) within the \_\_\_\_\_\_\_\_MSA. *Provide a description of the location of the MSA in terms of its region and/or proximity to other major city centers or landmarks*. *Use the next 2-3 sentences to describe demand generators for the MSA in terms of: major industries, employers, local attractions, etc. Also include any relevant demographic data and/or pertinent ratios.*

Per [REIS/Axiometrics] Quarter Year, the MSA has a current average vacancy factor of \_\_% with an average market rent of $\_\_\_/unit. Over the next five years, vacancy is projected to average \_\_%, while asking rents are projected to increase by \_\_% annually. The annualized five-year forecast for absorption within the MSA projects that \_\_ units will be built and \_\_ units absorbed per annum, equating to a \_\_ construction to absorption ratio.

# Submarket/Neighborhood Analysis Overview

The property is located within the \_\_\_\_\_\_\_\_ submarket, \_\_\_\_ miles N/S/E/W from the \_\_\_\_\_ CBD. *Describe surrounding land use, visibility, and access. What % is developed in the neighborhood? Is it suburban, urban, bedroom community? Distance and direction to nearby demand generators, employment centers, retail/commercial areas, major shopping centers, schools, cultural centers, tourist attractions, etc. Note the distance and direction to the nearest major intersections, highways, thoroughfares, access roads, and public transit. Discuss how the property fits in to the submarket’s demand and makeup. If the property is significantly different than the rest of the submarket’s offerings, discuss how local or regional demand is shifting to support the subject.*

Per [REIS/Axiometrics] Quarter Year, the submarket has a current average vacancy factor of \_\_% with an average submarket rent of $\_\_\_/unit. Over the next five years, vacancy is projected to average \_\_%, while asking rents are projected to increase by \_\_% annually. The annualized five-year forecast for absorption within the submarket projects that \_\_ units will be built and \_\_ units absorbed per annum, equating to a \_\_ construction to absorption ratio.

*Provide local knowledge and expertise. Expand on large demand drivers/attractions and their distances/directions to the property. Also note any unique characteristics of the submarket, such as strong schools and desirable access. If the property is a specialized property type (student housing or seniors), provide detail around those facilities; for seniors housing proximity to hospitals and medical office parks is important. Towards the end of the paragraph, comment on projected new supply in the next 36 months and absorption stats per REIS/the appraisal,* ***and how it might impact the subject property.*** *Provide details around the location, expected delivery timing and price point of any multifamily projects going up in the neighborhood as well as mitigating factors. Consider including three-mile radius population statistics, HH income statistics and the projected growth over the coming five-year period.*

## **For Seniors Housing Properties:**

*Also Include:*

The Appraiser defined the Primary Market Area (PMA) for the property within a \_\_\_ mile radius. The average occupancy was \_\_\_% for IL units and \_\_\_\_% for AL units. The supply / demand concluded an *oversupply/undersupply / or balance* of \_\_\_ IL units and *oversupply/undersupply / or balance* \_\_\_ AL units for the current year. Planned new construction within the PMA totaled \_\_\_ IL units and \_\_\_\_AL units over the next 36 months. The Appraiser *or NIC Map local property* sourced information from \_\_ comparable properties. These properties consisted of \_\_majority IL and/or \_\_\_ majority AL properties. The average occupancy was \_\_\_%. *Provide commentary on any outliers that impact the average occupancy such as properties in-lease up.*

The Appraiser (*or NIC Map local property)* sourced information from \_\_ comparable properties. These properties consisted of \_\_majority IL and/or \_\_ majority AL properties. The average occupancy was \_\_\_%. *Provide commentary on any outliers that impact the average occupancy such as properties in-lease up.*