The Small Balance Loan (SBL) offering continues to gain momentum, expanding and building our market share. As we look forward to increased volume and velocity in the coming weeks and months, we have some enhancements and updates to share with you, which we believe will assist you in processing the business and working with the Freddie Mac SBL team.

These updates and documents can be found on the Originate and Underwrite -- SBL Lenders page at the following URL, under “References and Tools”: http://www.freddiemac.com/multifamily/seller_servicer/uw/sbl.html

If you have any questions on the attached, please contact your relationship manager.

**SBL Offering Enhancements, Resources and Tools**

1. **5-50 SBL Seller Incentive**
   We launched an incentive for SBL Sellers to focus on loans secured by properties with 5-50 units. Any qualifying loan brought under application by a SBL Seller on or after April 15, 2015 is eligible for the $3,000 per loan incentive. This incentive will be processed concurrently with the origination allowance, if applicable. The term sheet is listed on the SBL Resources page at http://www.freddiemac.com/multifamily/seller_servicer/legal/sbl_materials/index.html.

2. **5-50 Program Plus® Seller Brokering Incentive**
   This incentive is for Program Plus Sellers to be compensated for brokering loans secured by properties with 5-50 units to Small Balance Loan (SBL) Sellers.
   
   The incentive amount will be based on the UPB of the brokered loans, on a quarterly basis:
   
   - Up to $50 million: 25 bps
   - Over $50 million: 50 bps

   This incentive will be available for any 5-50 unit SBL loan brought under application by an SBL Seller on or after April 1, 2015. This incentive is effective for 180 days, but may be extended if necessary. The term sheet is listed on the SBL Resources page at http://www.freddiemac.com/multifamily/seller_servicer/legal/sbl_materials/index.html.

3. **Origination Allowance – Processing Update**
   We have reposted the Origination Allowance term sheet (dated 4/24/15) to reflect that we are not requiring a Freddie Mac Form 71A, Appraisal Report, to receive the origination allowance. We are asking for information related to the appraisal firm and cost as well as the Form 1104, SBL Physical Risk Report. This will help us develop an understanding of providers and the cost as we look at ways to make the due diligence more cost effective and efficient. Should your company have a firm under contract at a fixed price for your Form 1104, you may send that information to Marc Batchelor in advance and that information will be put into our tracking for eligible loans in advance.

   Should you have any questions, please contact Marc Batchelor at 703-714-4941 or by email at marc_batchelor@freddiemac.com.

4. **Affordability Test**
   As you know, support of affordable housing is part of our mission at Freddie Mac for our conventional multifamily program and for SBL. The Freddie Mac Multifamily Affordability Test is used to estimate the number of very low-income (VLI) and low-income (LI) units for a specific multifamily property, based on the median family income threshold for the county in which the property is located. The required data for the tool include the:
   
   - State in which the property is located,
   - County in which the property is located,
   - Number of units per bedroom type, and
   - Monthly rent and utilities payment per bedroom type.
Upon receipt of a signed application and acceptable rent roll, the Affordability Test should be run for every SBL loan. The VLI- and LI-unit count should be sent to your relationship manager prior to the submission of an underwriting package. The affordability of the property will be one of the factors in future exception requests. The Affordability Test, along with a user guide and FAQ, can be found at http://www.freddiemac.com/multifamily/seller_servicer/uw/affordability_resources.html.

5. Crucial Information Needed for the Pipeline Tool
   - As stated in item 4 above, we request that the number of VLI and LI units be inserted into the web-based SBL Pipeline Manager tool. This should be done early in the process and not at submission of a complete underwriting package. The SBL Pipeline Manager tool is available on the SBL Resources page at http://www.freddiemac.com/multifamily/seller_servicer/legal/sbl_materials/index.html.
   - Appraisal Company Name, Appraisal Order Date and Appraisal Due Date are fields that will assist Freddie Mac with processing your loan more efficiently.
   - The SBL Pipeline Manager tool has been updated with the county names for every state. Now, by choosing the county in which the property is located in, the tool will automatically populate whether it is Top Market or not. This field has replaced zip code.

SBL Credit Policy, Seller/Servicer Guide SBL Addendum, and Legal Document Updates

1. Credit Policy Changes (SBL Addendum updates will be posted mid-May)
   We have revised Multifamily Corporate Credit Policy to implement the following changes to the SBL program:

   I. Maximum Commercial Income
      A. Maximum commercial income moving from 25% commercial net rental income (NRI) to 40% commercial gross potential rent (GPR) of total GPR (commercial and residential GPR combined)
         i. Maximum commercial Net Rentable Area (NRA) remains at 40%

   II. Minimum Property Occupancy
      A. Property must be stabilized at 90% physical occupancy for the trailing 3-month average prior to Underwriting or 85% for the trailing 3-month average prior to Underwriting if subject property has any of the following characteristics:
         i. Property is recently built or renovated in a top market
         ii. Property is <30 units
         iii. Acquisition with all of the following:
             1. Sophisticated acquiring sponsorship and management relative to current ownership
             2. Appraised occupancy and/or rents materially higher than subject's current operations
             3. Subject property has not experienced volatile historical occupancy swings
             4. No history of serious crime at the subject

   III. Maximum Student Concentration
      A. <25% to <50%
         i. Students are defined to include graduate students

   IV. Allowing Foreign Borrower/Borrower Principal Under Certain Conditions
      A. The borrower must be a U.S. entity or an individual with U.S. citizenship or permanent legal residents
      B. Borrower Principals that directly or indirectly control an entity borrower must either
         i. Be U.S. entities or individuals with U.S. citizenship or
         ii. Satisfy all of the following requirements:
1. If an individual, they must legally reside in the U.S.
2. If active in the daily management activities of the subject property, they must manage and/or own U.S. real estate assets other than the subject property, and have a demonstrated understanding for U.S. real estate practices

C. For foreign guarantors or U.S. guarantors residing outside of the U.S., in addition to the requirements for a Borrower Principal and a Guarantor:
   i. The loan must have one or more Guarantors that collectively have two times the standard net worth and liquidity requirements as stated in the Guarantor requirements of this policy above.
   ii. Appoint a U.S. person or entity that will accept service of process on behalf of the Guarantor. The entity or individual should be qualified to legally accept service of process. Typically, this is a company set-up for such activities. If the Guarantor chooses to utilize one of their own entities, an opinion letter from counsel will need to be received to validate the ability of that individual or entity to accept service of process.
   iii. If there is no additional financially compliant U.S. Guarantor, they must hold, in a U.S. bank account, an amount equal to no less than 5 percent of the principal balance of the loan. The Guarantor will covenant that the account will always be in compliance. In addition, financial statements will be submitted annually to lender.
   iv. They must own additional U.S. real estate assets other than subject property and have a demonstrated understanding for U.S. business and real estate practices.

V. Building Code Violations (clarification/reminder, no material change)
   A. All building codes violations of a material nature or life safety concern need to be listed as a Priority Repair in the SBL Physical Risk Report, Form 1104. It is the responsibility of the Physical Risk Consultant to identify these material or life safety building code violations. All building code violations such as Housing Preservation & Development violations in New York City that the Physical Risk Consultant may not review are to be reviewed by the Seller. Violations that are deemed to be material should be vetted with the Physical Risk Consultant to list as a Priority Repair. If no material or life safety violations exist but a concerning amount of non-material violations exists, the Seller should note this information in the investment narrative if it is deemed to be reflective of management practices. The SBL Loan Agreement will not itemize non-Priority Repair violations but states the borrower should resolve using best efforts.

2. SBL Loan Document Changes

To align with the recently updated SBL loan documents and to incorporate other recent refinements and changes to the SBL offering, we have updated the SBL Commitment. These Commitment provisions incorporate recent streamlined changes, and they will not align with the old loan documents (which Sellers are permitted to use until the end of April). If a Seller prefers to use the old loan documents for a loan, please use the prior Commitment form. All SBL Single Counsel are aware of these updates and have access to the new documents.

Below is a brief summary of the changes:

**Mortgage Terms**

- Added an option for cooperative borrowers
- Added a full interest only option
- Added an explicit instruction for Single Counsel to attach the “Replacement Reserve Fund – Immediate Deposits” rider to the Loan Agreement when replacement reserve funds are being escrowed
- Simplified the required purchase price provision
- Removed additional Creditors’ Rights carveout for special borrower types (only applied in a minority of cases)
- Added a ‘Pre-Origination Repair Requirements’ option for use where you have identified life/safety repairs that must be completed before the loan can be made to borrower; still permits you to issue the commitment while the repairs are outstanding
- Removed the additional ‘Terrorism Insurance’ provision that added to the Loan Agreement (the insurance provisions in the Loan Agreement have been refined; this is no longer necessary)
- Removed organizational chart provision and Exhibit (org chart no longer attached to commitment or loan agreement)

### Additional Mortgage Terms
- Removed all Radon Screening options
- Separated Aluminum Wiring and Galvanized Steel provisions (the associated riders have been separated, simplified, and standardized)
- Added a standard provision (with a standard published rider) for Stab-Lok
- Added provisions for Capital Improvements (both funded and unfunded options)

### Commitment, ERLA, Adjustment Letter
- Removed all organizational chart references
- Aligned adjustment letter provisions with changes to the form Mortgage Terms (Exhibit B-2)
- Cleaned up and clarified other provisions

### SBL Team New Hires

#### Production:

**Joyce Judah, SBL Production Senior, Central Region**  
Joyce joined the SBL team in late March 2015. Please contact Joyce should you have production and screening questions for loans in the Central Region. She may be reached at 312-407-7388 or joyce_judah@freddiemac.com.

#### Underwriting:

**Joshua Morris, Underwriting Associate, McLean Headquarters**  
Joshua joined the SBL Underwriting team in late March 2015. He may be reached at 703-714-4830 or joshua_morris@freddiemac.com.

### Important Reminders

#### Exception Requests
Effective January 2015, all requests for exceptions to program requirements, including the [Freddie Mac Seller/Servicer Guide](#) and SBL Addendum requirements, must be provided prior to submission of the ERLA request or the Full Underwriting Package using the SBL Exception Request Form now available on the SBL Materials page under “Resources.” Please contact Marc Batchelor with any questions. He may be reached at marc_batchelor@freddiemac.com or 703-714-4941.

#### Pipeline Loan Level Information
Please ensure loan details are accurately populated in the Pipeline Manager tool. Please contact Steve Malloy with any questions. He may be reached at steven_malloy@freddiemac.com or 703-714-3506.

### SBL Seller/Servicer Contact Information
Please send us any updated SBL contacts to ensure we can provide important and relevant communication to the SBL teams in your firm. Please send information to Christina House at christina_house@freddiemac.com or if you have questions, please call her at 703-714-2621.