<u>Freddie Mac's Approach to Loan Assumption Requests</u>
(April 2016)

In accordance with the terms of the loan documents, Freddie Mac reviews both the suitability of the proposed borrower Sponsor and the status of the collateral. While certain document modifications may be necessary to accommodate the structure of the new borrower or special circumstances of the transaction, Freddie Mac does not see an assumption transaction as an opportunity for either the borrower or Freddie Mac to re-negotiate the terms of the underlying loan transaction.

1. Business Review of Proposed Sponsor

Freddie Mac does not evaluate the proposed Sponsor against the current Sponsor. Instead, we evaluate the proposed Sponsor against our internal credit policies in the following categories:

- <u>Multifamily Experience</u> – years of ownership, number of properties, property types and size. Properties should be well-maintained, cash flowing and competitive though market cycle fluctuations.
- <u>Financial Strength</u> - net worth and liquidity as compared to the loan's UPB and annual debt service to show the proposed Sponsor can weather market downturns impacting property cash flows and unexpected costs at the property.
- <u>Contingent Liabilities</u> – assessment of the proposed Sponsor's contingent liabilities and how they could weaken the proposed Sponsor's financial strength.
- <u>Cash Equity</u> – the proposed Sponsor must demonstrate significant equity in the property (no greater than 70-80% LTV, preferably lower). A mitigant for lower cash equity may be a requirement for funding of reserves for taxes, insurance, repairs and capital replacements.
- <u>Credit History</u> – if the proposed Sponsor has prior credit blemishes, then the proposed Sponsor must show that it acted in good faith with the applicable lender.

2. Legal Structure of New Borrower

Freddie Mac evaluates the proposed borrower to ensure it is structured in such a way as to not present a barrier to enforcement of Freddie Mac's rights if necessary.

- <u>Domestic and Foreign Parties</u> - The proposed borrower must be formed in the U.S. Any proposed borrower principal holding a direct interest in the proposed borrower must be a U.S. citizen or entity; however, foreign entities that hold a direct or indirect interest in a U.S. chartered borrower principal are permissible. We generally allow a foreign person or entity to function as guarantor, subject to the requirements that the proposed guarantor maintain specified liquidity in a U.S. bank and appoint an agent in the U.S. for service of process. Freddie Mac reserves the right to require additional legal opinions when foreign parties appear in the Borrower's ownership structure.
- <u>Excluded Borrowers and Borrower Principals</u> – The proposed borrower and proposed borrower principals may not appear on Freddie Mac's Exclusionary List or the Specially Designated Nationals and Blocked Persons

List. Freddie Mac will generally exclude parties that have a criminal record, are the subject of a pending bankruptcy, or who are involved in any litigation as an adverse party to Freddie Mac.

- Single Asset Entity (SAE) and Special Purpose Entity (SPE) Borrowers – SAEs are permissible as new borrowers for non-securitized loans and for securitized loans less than $5 million. For securitized loans $5 million or greater, an SPE borrower is required.
- SPE Equity Owner - For a loan or crossed-pool of loans $25 million or greater, Freddie Mac may require an SPE Equity Owner.
- Independent Director/Manager - For a loan or crossed-pool of loans of $50 million or greater, Freddie Mac may require the proposed borrower to have an independent director or manager, as applicable.
- Non-Consolidation Opinion - For loans $25 million or greater, Freddie Mac will require a non-consolidation opinion evidencing that the proposed borrower is a bankruptcy remote entity.
- Specialized Classes of Borrowers – For certain types of loans and proposed borrowers, including borrowers for loans secured by Seniors Housing and non-profit borrowers, Freddie Mac will require additional borrower experience and perform additional review.
- Preferred Equity Investors – If the proposed borrower's structure appears to include aspects of preferred equity, then Freddie Mac will require additional analysis and explanation from both the proposed borrower and the Servicer's counsel, as well as additional underwriting against Freddie Mac's then-current credit policies.

3. Review of Property

Freddie Mac will evaluate the current status of the Property to ensure that it meets current credit standards. Our review includes the following items:

- Property Management Company ("PMC") – we prefer a professionally accredited PMC. Freddie Mac's website maintains a list of PMCs that do not require prior approval by Freddie Mac. If the proposed PMC is not listed on Freddie Mac's PMC list, then Freddie Mac's review of the proposed PMC will include an evaluation of the PMC's experience in the applicable market with properties similar in size/type to the property. In addition, if market conditions are flat or declining, the PMC should have a proven history in the market and a property-specific strategy to address market weaknesses.
- Property Condition – Freddie Mac will review third party reports to determine multiple aspects of property condition.
  - Mitigation options for deferred maintenance identified by Servicer's property inspection or a new Property Condition Report include funding of a reserve for repairs or a new or increased capital replacement reserve.
  - If hazardous materials or conditions such as mold, lead based paint, and asbestos are present, Freddie Mac will require establishment of an O&M program.
- Property Performance – Freddie Mac will assess trends in the property's occupancy, DCR and LTV and seek an explanation for any downturns. If there are declining trends in DCR and LTV, Freddie Mac may require a credit enhancement such as a funded rental achievement reserve, to be released when the property achieves certain DCR and occupancy thresholds.

If you have any questions regarding Freddie Mac's loan assumption policies and processes, please contact Pamela Dent, at (703) 714-2717.