Mortgage Transaction Narrative-Best Practices

Freddie Mac requires Sellers to submit a mortgage transaction narrative analysis as part of the underwriting package for all transactions. Should you adapt the SBL Investment Brief template circulated previously please use discretion in deciding which content within this aid you will need to utilize. The narrative is intended to summarize pertinent facts related to a transaction and must meet the requirements of Chapter 55 of the Freddie Mac *Multifamily Seller/Servicer Guide*. When completing a quality narrative, Sellers are expected to provide detailed descriptions where necessary, and provide additional information or attach additional documents as needed.

This job aid addresses a number of key elements of the narrative and provides sample language, examples, and guidance for completing some of the key topics including:

- Transaction Overview
- Escrow/Reserve Requirements
- Transaction Strengths
- Transaction Risks/Mitigants
- Property Overview
- Commercial Rent Roll
- Borrower
- Management
- Appraisal
- Sales/Rent Comps
- Physical Risk Report (1104)
- Environmental Database Search
- Market Overview (Optional content)
- Submarket Overview/ Neighborhood Analysis

The sample language, examples, and guidance provided are merely a starting point for your analysis and may not be applicable in certain situations. You are in the best position to effectively present the unique aspects of the transaction and to determine which topics to include. This document is not intended to limit your analysis, standardize the information you provide to us, or dictate the format in which you provide it.

We encourage you to review this job aid, incorporate its guidance and, where appropriate, make use of the sample language when preparing your narrative to help ensure a more expedient and efficient underwriting process.

Transaction Overview/Unique loan features

Return to Menu

Brief/ Approval Loan Brief/ Sections of Presentation/ Document Category: Brief, Section Name: Overview

Refinance

Seller name funded and Freddie Mac purchased a $______ ($_____/unit) __-year loan secured by a first lien on property name, a ___-unit, style apartment complex located in city, state. The loan facilitated the refinance of an existing debt and (the borrower has $___ net equity remaining in the transaction or the borrower cashed out $___ as part of this transaction and has $____ cash equity remaining in the deal (___% of the total cost basis).

Acquisition

Seller name funded and Freddie Mac purchased a $______ ($_____/unit) __-year loan secured by a first lien on property name, a ___-unit, 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 and year). The borrower contributed $______ of cash equity at the time of closing, equating to a ___% Total Acquisition Costs.

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, style apartment complex located in city, state. The loan facilitated the refinance of existing 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.

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, 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.

For each above: The Guarantor acquired the property from/out of (foreclosure, arm's-length transaction, as distressed asset as vacant or with deferred maintenance, part of 1031 exchange financing, and completed renovation since acquisition) and repositioned the subject property and demonstrated market acceptance.

Common Sponsorship

The property is one of #-[cross-collateralized] properties sponsored by ______, 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.)

Note: Address any unusual facts surrounding the transaction such as distressed sale, note purchase, partnership buyout, large discrepancy between purchase price and appraised value, succession plan.

Escrow/ Special Reserve Requirement

Escrows

Real estate tax escrow – not required if LTV is 65% or less
Insurance escrow – not required
Replacement reserve escrow – not required

Priority Repair Escrow

- ❑ If PR-90 and the Priorty Repair amount per 1104 is lower than the threshold, escrow can still be established based on Engineer's risk rating or Underwriter discretion.

Special Reserve Requirement

- ❑ Seismic retrofit escrow – if required, must be escrowed at 125% of cost.
- ❑ Engage for 2nd Level 1 SEL-475 report upon completion resulting in a SEL of 20% or better.
- ❑ Address any building stability concerns and mitigate

Transaction Strengths

Return to Menu

Brief/ Approval/ Loan Brief/ Strengths/ Strength Name

&

Brief/ Approval/ Loan Brief/ Strengths/ Strength-Narrative

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

The loan represents a ___% (<65%) underwritten LTV with an amortizing DSCR of _.__ x (>1.30x) based on an underwritten NOI that is ___ % less than T-12 ending __/__/__.

Strong Guarantor

The guarantor(s), [______ and ______], have a combined net worth and liquidity of $___ and $______, respectively. Also discuss REO details, unique backgrounds and years of experience as an owner/operator, experience in the market or operating a specific property type (student, senior, etc.). Note here if this is a repeat Freddie Mac Guarantor or Borrower, total years of or number of loans closed through the lending relationship, and whether they have performed as agreed.

Property Management

The property is managed by ______, a [borrower- affiliated/third party management company]. The Management Company was established in ______ and currently manages ______ multifamily (or student) properties containing ______units in [markets/region/nationwide] with ______ units under management locally. If applicable, discuss if the management company has specific experience managing low income, rent restricted, student, age restricted, etc. If a Borrower affiliate, note whether it manages properties/units for third parties.

Historically Stable Occupancy

The vacancy rate at the property was ___% as of __/__/__. Average historical vacancy rates at the property ranged from ___% to ___% over the past ____ years. The breakeven vacancy rate is approximately ___%, compared to the underwritten vacancy rate of ___% and average of ___% for T-12 ending __/__/__.

Excellent Property Condition and Curb Appeal

Transaction Strengths, continued

The property was built in [year]. The property is in excellent physical condition with the PRR 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 update interiors, renovate other amenities, etc.] [Provide Reis inventory support (Per Reis quarter/year, the property is consistent with the submarket as ___% of the submarket inventory was built before ____.]

Superior Amenities

Amenities such as list unique amenities are unique to the property and enhance its competitiveness. [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 artery 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- (As applicable for Small or Very Small Market deals)

The property is located 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.*

Transaction Risks/ Mitigants

__-Year Interest-Only Period (outside of programmatically allowed) or Full Term Interest-Only

The loan is interest-only for the initial ___ years. This risk is mitigated by $______ of equity as well as I/O and amortizing DSCRs of _.___x and _.___x, respectively, 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. Add maturity LTV as a mitigant if it is 65% or less.*

Cash Out (>$1,000,000)

The borrower is cashing out approximately $____ million 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 5 years as a mitigant, or dollar amount of substantial capital improvements have been made during ownership. If the borrower is cashing out substantially after 3 or less years of ownership and substantial value creation has occurred, note % increase in NOI since purchase.*

High Submarket Vacancy Rate / New Supply

Per to 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.

Transaction Risks/ Mitigants Continued

Declining Collections Trend/Volatile Collections

The property has experienced decreasing Gross Potential Rent (GPR) and a declining collections trend. The property's GPR has decreased ___% between the year-end total and the underwritten GPR based on the __/__/__ rent roll. While rents achieved have fallen in an effort to maintain occupancy, the overall net rental income has been conservatively underwritten ___% below the T-12 ending __/__/__ to account for potential future decreases. This risk is further mitigated by *provide specific, quantifiable support such as borrower's market experience, market tightening supported by Reis, management plans to increase rents/occupancy, etc.*

Property [Quality/Condition/Age]

The property was built in ______. It has been well maintained by the owner as there are no/minimal immediate repairs recommended by the engineering report. Recently completed capital improvements include list recent projects, at an estimated cost of $______. The borrower plans to invest $______ in capital improvements including list items, etc. over the next 12 months. Per Reis quarter/year, the property is consistent with the submarket inventory with __% built before ______. In addition, monthly replacement reserves are required. *Describe other mitigants which may include strong historical/stable occupancy, lack of available land, borrower made a large up front escrow, etc. Discuss low REAC's for affordable properties.*

Tenant Concentration (military, student, single employer, non-profit/transistional units, or corporate)

Transaction Risks/ Mitigants Continued

The property is located ___ miles direction from name of university, military base, single employer, corporate, etc. and has a concentration of ___%. Average historical occupancy at the property has ranged from ___% to ___% over the past ____ years. The sponsors are experienced housing owners and operators with ____ (type of concentration) under management. Note if the property requires *describe requirements such as parental guarantees, 12-month leases, supporting servces on non-profit subsidies, master lease, fully furnished corporate units, etc. Address new supply and preleasing if applicable, the property's competitive advantages in the market and the barriers of entry for new competing properties.*

[Secondary/Tertiary] Market

The property is located in city, state which is ____ miles direction of major city. As of year, the city has a population of ______. Major employers in the area include ______ (distance and direction), which provide a stable employment base. [Include other demand generators]. *Note mitigants such as: lower multifamily inventory in area, stable operations, sponsorship investment in the area and what % of the local population can afford rent at the subject property, if signficant.***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, barriers to entry/limited new supply.

Recent Crime Concerns / Local Crime Concerns / Persistent Pattern lesser crimes

According to the [Source - i.e. local police station website or SpotCrime] crime report dated __/__/__, ___ incidents were reported within 0.5 mile of the property over the past ___ days. *Describe the nature of significant incidents and when they occurred. Address any major incidents that took place at the property within the last 3 years. Detail any specific impacts to operations that may have resulted. Discuss safety measures taken by management and any other mitigants/actions taken for operational issues.* Refer to the exhibits section of this report to view the map or crime report [as necessary].

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 ____________. 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.

Limited Operating History

The property was completed in [include Month Year] and reached stabilized occupancy in [include 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.

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 Environmental Database Search was received during due diligence.

Property Overview

Return

to Menu

Property/Market/ General Property/

Property name is located in city, state, within the ___ MSA [and located ___ miles from________]. The property is improved with __, __-story apartment buildings and any other structure included in collateral. Built in year, the property is a ___-unit, [garden-style/mid-rise/high-rise/town home] apartment.

If NOT addressed in S/W: Recently completed capital improvements include list recent projects, at an estimated cost of $______. The borrower plans to invest $______ in capital improvements including list items, etc. over the next 12 months. If applicable, describe % of renovated units and dollar amount of rent premiums achieved/anticipated

Property Overview Boilerplate	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.] Include and describe any corporate, student or military concentrations >20%. Include the source of the concentration – the nearest University or military base, non-profit or transistional units If there is any shared access or easement agreement concerning the amenities, describe here. [Include: Parties relevant to easement, date, terms of agreement (if shared amenities – proximity to property? Related borrower? Cost to borrower passed to tenants?). Which party responsible for maintenance and upkeep? Share of costs (if any)? Remediation options if borrower/other party fail to pay/breaches agreement? Is it perpetual? Does it run with the land? Can the property operate without the agreement? Was a carve-out required? 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. Per the Zoning Report dated (if applicable) or per the Appraisal report dated _____, the property is zoned _____ and is considered legal non-conforming due to the following: briefly outline deficiencies as described in the zoning report or appraisal; include applicable information from the Reconstruction Clause. Survey (if applicable)

Borrower Analysis/ Borrower Principals

Return to Menu

Borrower/ Principal Comments

Borrower

The borrowing entity is borrowing entity name, formation state entity type. The key sponsors for this transaction are _____, _____, etc. The carve-out guarantors for this transaction are _____, _____, etc.

Use this paragraph to 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. 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.

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

(i) Failure to pay the preferred return (include details on specific dates, return %, etc)
(ii) Negligence or willful misconduct of Manager
(iii) A default by a Manager affiliate under the property management agreement
(iv) Loss of a "key person" in Manager
(v) Manager's failure to make a capital contribution required by the Governing Agreement
(vi) Manager's failure to comply with an approved budget, operating plan or other required administrative protocol
(vii) Manager's failure to comply with "major decision" provisions in the Governing Agreement which require Equity Member's approval
(viii) The institution of any legal proceedings against Manager
(ix) Manager filing for bankruptcy or other creditor's rights protection

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

Management

Return to Menu

Property/ Market/ Property Management/ Property Management

Borrower-controlled Management:

The property is managed by management company name, a borrower-controlled 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 **Borrower-controlled** management company, the underwritten management fee must equal the amount that would be necessary to effectively operate the property in the market on a standlone basis. In 5-50 units, we generally use 5% as a benchmark, although we heavily rely on market comps and underwrite below that level often, especially in top markets where gross rents are higher and 3% is still more common.*

*For an experienced **third-party** manager,the underwritten management fee must be at least equal to the in-place contract amount with no ceiling, but we always consider market. .*

Appraisal

Return to Menu

Valuation/ Valuation/ Final Valuation/ Appraisal Boilerplate

If applicable, this section should also address the following:

- *Extraordinary assumptions or hypothetical conditions that impact the appraised value*
- *As-Is vs. As-Stabilized values*
- *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.*
- *Whether the cap rate is reasonably supported.*
- *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.*
- *Discuss if there is a total lack of Sales comp data.*
- *Discuss if concluded value/unit is not supported by Sales comp data.*

Physical Risk Report (1104)

Return to Menu

Property/ Market/ Eng & Env Report/ Engineering Information/ Engineering Summary Boilerplate

Explanation Required if:

- ❑ Report date exceeding 6 months from date of submission
- ❑ Answered "Yes" to any problematic materals
- ❑ Answered "Mitigated observation" or "Not Acceptable" to any Environmental issues
- ❑ Answered "Yes" to infestation noted in WDI Summary
- ❑ If Peak Ground Acceleration is above 0.15g AND SEL-475% is above 20%
- ❑ If Building Stability is "Yes" on form 1102s

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.

Environmental /Database Search

Return to Menu

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.*

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

Market Overview

[Return to Menu](#)

Property/ Market/ General Property/ Market Information Market Overview Boilerplate

Market description required.

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.*

Submarket Overview/

Neighborhood Analysis

[Return to Menu](#)

Property/ Market/ General Property/ Market Information Market Overview Boilerplate

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, etc. Note the distance and direction to the nearest major intersection/highway/thoroughfare/access road/public transit

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;

Towards the end of the paragraph, comment on projected new supply in the next 36 months and absorption stats per Reis/the appraisal. 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.