



Bulletin

NUMBER: M2017-2

TO: Freddie Mac Multifamily Sellers and Servicers

March 3, 2017

SUBJECTS

With this Bulletin for the Multifamily Seller/Servicer Guide (Guide), Freddie Mac is making the following changes:

- Revising our requirements for Borrowers, as follows:
 - Listing the characteristics of Borrowers, Borrower Principals, SPE Equity Owners, guarantors and Non-U.S. Equity Holders that would make such persons or entities unacceptable to Freddie Mac
 - Shortening our requirements for a Borrower Principal or guarantor that is an investment fund
 - For SBL Mortgages, adding requirements for a Borrower of a Mortgage exceeding \$6 million
- For Forward Commitments, requiring a pre-construction analysis report to be updated if the report is dated more than six months prior to the date of submission of the underwriting package
- Adding a new requirement for Replacement Reserves for Supplemental Mortgages
- Making revisions to our chapters covering requirements for title insurance, surveys and UCC searches
- Providing additional requirements for monitoring and timely completion of repairs
- Making changes to our requirements for post-purchase reporting, as follows:
 - Revising post-purchase reporting to include new report formats and new documents that must be submitted and updated schedules for reporting
 - Updating requirements for property inspections
- Revising our requirements for Transfers of Ownership for non-SBL Mortgages
- Revising our minimum rating requirements for an eligible depository
- Updating Form 1102, Seismic Risk Assessment Summary, to collect additional information on building stability concerns
- Updating our insurance requirements to address duplication and align with changes to the Insurance Compliance Tool (ICT)
- Updating our underwriting checklists for Bond Credit Enhancements and Forward Commitments

Effective dates

All revisions announced by this Bulletin are effective immediately.

Conclusion

More details on these changes are provided on the pages that follow. Guide text for the changes announced in this Bulletin is highlighted in green on AllRegs. If you have any questions about this Bulletin, please call your Freddie Mac representative.

Sincerely,

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Revisions to Borrower Requirements

Unacceptable Persons or Entities for Non-SBL and SBL Mortgages

We are revising our requirements to state that Freddie Mac will not purchase any Mortgage if it determines that a Borrower, Borrower Principal, SPE Equity Owner, guarantor or Non-U.S. Equity Holder:

- Is a confirmed match to a name on any of the following lists:
 - OFAC Specially Designated Nationals and Blocked Persons List
 - OFAC Consolidated Sanctions List
 - FHFA Suspended Counterparty List (subject to any conditions or exclusions set forth in the final suspension order)
 - Freddie Mac Exclusionary List
- Has a civil or criminal conviction for the commission of terrorism, terrorism financing, or money laundering
- Has a civil or criminal conviction in connection with a financial crime such as embezzlement, fraud, misappropriation of funds or breach of fiduciary duty
- Is named as an accused or defendant in any pending or current criminal or civil proceeding relating to any of the crimes set forth in the prior two bullet points
- Is insolvent or the subject of a pending bankruptcy or similar proceeding
- Is an adverse party to Freddie Mac in any pending or current litigation

These same restrictions apply to any Transfers of Ownership under Chapter 41, Transfers of Ownership, and Chapter 41SBL, SBL Transfers of Ownership, as well as to any other Servicing-related transaction.

These changes can be found in Sections 9.3 and 9SBL.3. To reflect these changes, we will also be revising Form 1115, Borrower and Borrower Principal Certificate, and Form 1115SBL, Borrower and Borrower Principal Certificate SBL.

Investment Funds

In Section 9.10, where the guarantor is an investment fund, we are no longer requiring Seller/Servicer's counsel to complete the Investment Fund Analysis form. Instead, we are including a description of the limited review of the organizational documents that the Seller/Servicer's counsel must undertake. The Seller/Servicer's legal counsel must confirm in a preliminary legal analysis memorandum (PLIM) that the organizational documents for the investment fund satisfy Freddie Mac's requirements.

If the investment fund's organizational documents do not meet Freddie Mac's requirements, the PLIM must include a description of the differences and recommendations as to why Freddie Mac should approve the investment fund. The PLIM must explain renewal options if the investment fund's termination date occurs prior to the maturity date of the Mortgage.

For SBL Mortgages, we are no longer requiring Single Counsel to provide a completed Investment Fund Analysis form. When reviewing the Borrower and Borrower Principal organizational documents, Single Counsel must ensure, in the case of an investment fund, that the termination date

does not occur prior to the maturity date of the Mortgage. These changes can be found in Sections 9SBL.7 and 9SBL.10.

Borrower Single Asset Entities for SBL Mortgages

For an SBL Mortgage exceeding \$6 million, we are now requiring that the Borrower be a Single Asset Entity (SAE) with additional restrictions as set out in the Loan Documents.

This change can be found in Section 9SBL.2(b).

Forward Commitments

We are making the following changes to our requirements for Forward Commitments:

- Requiring a pre-construction analysis report to be updated if it is dated more than six months prior to the date of submission of the underwriting package; if the pre-construction analysis relies on a property condition report dated more than six months prior to the date of submission of the underwriting package, Freddie Mac may require the Architectural Consultant to conduct a new inspection to verify the current property condition
- Clarifying that for rehabilitation projects, the pre-construction analysis report must discuss the results of any wood-damaging insect reports
- Moving the property inspection requirements for Forward Commitments from Chapter 15 to Chapter 8, Property Fundamentals; the requirements for property inspections have not otherwise changed

Property inspection requirements for Forward Commitments can now be found in Sections 8.16, 8.16(a), 8.16(b), 8.16(c), 8.16(d), 8.16(e). As a result, the remaining sections of Chapter 8 and Chapter 15 have been renumbered. The revisions to requirements for Forward Commitments can be found in Sections 15.1(b) and 15.3(b).

To accommodate these changes, we have also updated cross-references in Sections 2.18(c), 8.15, 11.5, 14.2, 14SBL.2, 19A.1(d), 19A.3, 19A.12, 19A.14, 28A.3, 55.2, and the TAH Forward Commitment Conversion Checklists in Exhibit 1, Sections 1.31 and 1.33.

Replacement Reserves for Supplemental Mortgages

For Supplemental Mortgages, we will not permit any replacement items that are not already permitted by the Loan Documents for the most Senior Mortgage to be added to the Loan Agreement, unless the Replacement Reserve monthly escrow is increased to account for the cost of such new items.

If the Borrower wants the Replacement Reserve monthly escrow to be increased in order to add additional items to the Replacement Reserve, the Borrower and Seller/Servicer must request a modification of the Loan Documents for the most senior Mortgage, and must coordinate this request with the Master Servicer.

This change can be found in Section 39.3(a).

Title, Survey and UCC Searches

We are making extensive revisions to our title, survey and UCC search requirements in Chapter 29, as follows:

- Making changes throughout Chapter 29 to refer to the title policy as the ALTA Loan Policy and to refer to the Title Exceptions and Survey Analysis as the TESA
- Updating and simplifying requirements for electronically issued title insurance policies
- Updating the table of required endorsements and acceptable alternatives
- Revising our requirement regarding the date of the ALTA Loan Policy and the identification of recorded documents
- Requiring the Seller/Servicer to submit the TESA to Freddie Mac no later than two Business Days prior to the anticipated Origination Date
- Requiring the Seller/Servicer to disclose all exceptions which fall into a safe harbor category subject to additional coverage in the TESA
- Simplifying the analysis of non-safe harbor title exceptions for Supplemental Mortgages
- Simplifying our requirements for encroachments and violations identified on the Survey
- Updating the acceptable ALTA forms for a number of safe harbor categories
- Updating the requirements for the location of the UCC search
- Moving the title and survey requirements for Manufactured Housing Mortgages from Chapter 22 to Chapter 29
- Removing the requirements that must be met for waiving a survey from Chapter 29 and referring the Seller/Servicer instead to the Survey Waiver Requirements document found on FreddieMac.com

These changes can be found in Sections 22.9(a), 22.9(b), 22.9(c), 29.1, 29.1(d), 29.1(f), 29.1(g), 29.1(i), 29.1(j), 29.2(b), 29.2(d), 29.2(e), 29.2(f), 29.2(g), 29.3, 29.4(b), 29.4(f), 29.5(a), 29.5(b), 29.5(c), and 29.5(e).

We are also revising requirements for SBL Mortgages, as follows:

- Updating and simplifying requirements for electronically issued title insurance policies
- Updating the table of required endorsements and acceptable alternatives
- Revising our requirement regarding the date of the title policy and the identification of recorded documents
- Updating the safe harbor categories of condominiums and riparian rights

These changes can be found in 29SBL.1(f), 29SBL.1(g), 29SBL.1(i), 29SBL.1(j), and 29SBL.2(e).

Monitoring and Timely Completion of Repairs

With respect to managing repairs that have not been completed in a timely fashion, the Servicer must provide notifications to the Borrower until it receives sufficient proof that all Repair items required in the Loan Agreement have been completed. We are adding a new subsection which contains provisions for a “reservation of rights” letter, which Freddie Mac considers to be a prudent Servicing practice in conjunction with enforcing the Loan Documents. If the situation escalates, and the Servicer issues a notice of default in accordance with the Loan Documents, the Servicer must provide

Freddie Mac with a copy of the notice of default. These provisions can be found in new subsection 5 under 39.4(b) and also in Section 40.7(d).

For an SBL Mortgage documented on a Loan Agreement form dated on or after 11/02/2015, Freddie Mac will create an entry in PRS that captures all Priority Repairs identified on Form 1104, Physical Risk Report. The Servicer must update this entry each time a Priority Repair item is completed. We are also noting that the Servicer must work with the Borrower until any Life Safety Hazards are remediated or resolved. These changes can be found in Section 39.5(a) and 40.7(d).

Changes to Post-Purchase Reporting

Post-Purchase Reporting Formats

We are revising our requirements for post-purchase reporting to include reports in accordance with the Commercial Real Estate Financial Council Investor Reporting Package (CREFC IRP). Servicers must submit one of the following reports:

- For annual reporting (the Annual Financial)
 - The Annual Income and Expense Assessment (AIE),
 - A-CREFC-HC (multifamily healthcare/Seniors Housing loans), or
 - A-CREFC-MF (all other multifamily loans).
- For quarterly reporting (the Quarterly Financial)
 - The Quarterly Income and Expense Assessment (QIE),
 - Q-CREFC-HC (multifamily healthcare/Seniors Housing loans), or
 - Q-CREFC-MF (all other multifamily loans).

In addition, for SBL Mortgages with a Loan Agreement form dated after 11/02/15, Servicers will be required to submit a Mid-Year Rent Schedule.

We have revised our instructions for the source documents for the Annual Financial and the Quarterly Financial, as well as the submission instructions. We have also added a new section to contain the source documents and instructions for completing and submitting the Mid-Year Rent Schedule.

Section 40.2(a) contains a description of the report formats, or types of assessments. The criteria for the type of assessment the Servicer must submit is found in the table in Section 40.2(b). The updated requirements for completing and submitting the Annual Financial and the Quarterly Financial are found in Sections 40.3, 40.3(a), 40.3(b), 40.3(c), 40.4(a), 40.4(b), and 40.4(c). Section 40.5 contains the requirements for the Mid-Year Rent Schedule. The remaining sections of Chapter 40 have been renumbered and cross-references throughout Chapter 40 have been updated. The Value-Add Monitoring Form has been updated and is available on FreddieMac.com.

Special Product Type Mortgages

We are updating the post-purchase reporting requirements for certain special product type Mortgages. For SBL Mortgages, we are moving the requirements from Section 40.16(a) to the chart in 40.2(b). For Properties deemed unstabilized by Freddie Mac, in Section 40.16(c), we are

- Specifying that the Servicer must submit financial spreads provided on a trailing 12-month basis with the Detailed QIE, and

- Requiring that the Servicer submit the most recent construction or engineering report as an attachment, if available.

Property Inspections

We are updating requirements for conducting property inspections to state that the units inspected must be randomly selected by the inspector instead of by the property manager or the Borrower. This change can be found in Section 40.7(a).

Transfers of Ownership for Non-SBL Mortgages

We are updating our requirements for Transfers of Ownership to require the Servicer to collect initial information regarding

- The proposed new Borrower Principals, for a proposed Transfer of Ownership interests in the Borrower or a Borrower Principal
- The existing Borrower and proposed new sponsor (the term Freddie Mac is using to refer to any Required Borrower Principle of the proposed new Borrower), for a Transfer of Ownership in the Property

We are also adding a new section to contain the instructions for the Early Indication Package that is required if the proposed transfer is a Transfer of Ownership in a Property.

Finally, we are requiring a final proposed revised Borrower organizational chart to be submitted to Freddie Mac five Business Days prior to a proposed transfer of interests in an existing Borrower.

To accommodate these changes, we have revised Sections 41.4, 41.4(a), 41.4(c), 41.4(d), and 41.4(e). The new section for the Early Indication Package has been added as Section 41.4(b).

Minimum Rating Requirements for an Eligible Depository

We are updating our minimum rating requirements for eligible depositories. Once a Custodial Account has been established, the Servicer must monitor the ratings issued by the ratings agencies to ensure that the depository remains an eligible depository. These changes can be found in Section 52.2(a).

Updated Form 1102, Seismic Risk Assessment Summary

We are updating Form 1102 to require the seismic risk consultant to provide additional information in the event that a building stability concern has been identified in the Seismic Risk Assessment (SRA). Form 1102 is available on FreddieMac.com.

Insurance Update

We are revising the property damage insurance requirements in Section 31.4 to remove outdated requirements that duplicate requirements in Section 31.1 and to reflect an upcoming change to the ICT.

Changes to the Underwriting Checklists

We are making the following additional changes to the underwriting checklists found in Exhibit 1:

- In Section 1.29, are we revising the title to indicate that this checklist can be used for both TAH Bond Credit Enhancement Mortgages and Tax-Exempt Loans (TEs).
- In Section 1.30, TAH Cash Mortgage Forward Commitment Full Underwriting Checklist, we adding a requirement for the Seller to deliver documentation for Properties with problematic materials and systems.
- In Section 1.32, we are revising the title to indicate that this checklist is applicable to Forward Commitments for both TAH Bond Credit Enhancement Mortgages and Tax-Exempt Loans (TEs), and adding a requirement for the Seller to deliver documentation for Properties with problematic materials and systems.
- In Section 1.33, we are revising the title to indicate that this checklist is applicable to Conversions for both TAH Bond Credit Enhancement Mortgages and Tax-Exempt Loans (TEs), and adding a requirement for the Seller to deliver documentation for Properties with problematic materials and systems.