

Bulletin

NUMBER: M2013-2

TO: Freddie Mac Multifamily Sellers and Servicers

April 30, 2013

SUBJECTS

With this Bulletin for the Multifamily Seller/Service Guide (Guide), we are:

- Adding a new chapter to provide Freddie Mac's requirements for assessing seismic risk
- Changing our requirements for postpurchase assessments
- Excepting Mortgages secured by a property owned by a Cooperative from the requirement to submit quarterly financial reports
- Revising our insurance requirements for certain third party consultants and clarifying our requirements for Ordinance and Law Insurance coverage
- Updating our requirements with respect to the eligibility status of a Custodial Account depository institution
- Revising and adding categories for minority-owned businesses to Form 16M – Multifamily Annual Certification Report and Form 1107M – Multifamily Seller/Service Change Notification
- Updating our title insurance policy requirements
- Revising our provisions regarding commercial usage to explicitly include leases for oil, gas and minerals located on or beneath the Property
- Clarifying our requirements for repairs, ground leases and survey waivers with respect to Supplemental Mortgages, as well as making other housekeeping changes
- Adding a new form to the Prescreen Package Checklist for TAH Bond Credit Enhancement Mortgages

Effective dates

All of the changes announced by this Bulletin are effective immediately, except the following:

- Changes to the requirements for postpurchase assessments go into effect July 1, 2013
- Revised insurance requirements for third party consultants and inspectors go into effect June 1, 2013
- New seismic risk requirements go into effect on June 1, 2013

Conclusion

More details on these changes are provided on the pages that follow. Guide text for the changes in this Bulletin is highlighted in green on AllRegs. However, since Chapter 16 is completely new, we have chosen to display its text in black.

If you have any questions about this Bulletin, please call your Freddie Mac representative.

Sincerely,

David Brickman
Senior Vice President
Multifamily

Seismic Risk Assessment Chapter

We are adding a new chapter to the Guide to contain Freddie Mac's requirements for the Seismic Risk Assessment (SRA), which takes the place of the Site Specific Seismic Report (SSSR). The new chapter provides:

- Seller/Servicer responsibilities with respect to the retention of a seismic risk consultant
- Required qualifications for the seismic risk consultant
- Property risk factors that necessitate an SRA
- Inspection requirements and SRA content requirements
- The certification that can be provided in lieu of an SRA if the Property risk factors do not necessitate an SRA

The new chapter is being added to the Guide as Chapter 16. To accommodate the new chapter, we have moved the provisions previously found in Chapter 16 to Sections 10.6 through 10.16 of Chapter 10, which has been renamed Fundamentals of Mortgages, Mortgage Origination and Credit Underwriting. The provisions of the relocated Sections have not substantively changed.

Additionally, Sections 14.4, 14.5(a), 14.6(a) and Form 1105 – Multifamily Property Condition Form have been revised to require the property condition consultant to include in the property condition report an evaluation of any high risk seismic factors.

Other changes to the Guide to accommodate the new chapter have been made to the following sections of the Guide: 5.3(a), 5.4(e), 8.14, 17.1(b), 17.1(g), 19.1(b), 19.1(g), 20.1, 21.1, 31.9 and 41.7. All conventional and TAH underwriting checklists found in Exhibit 1, along with Section 55.2 of the Guide, have been revised to list the SRA as a required document instead of the SSSR. Form 1117 – Borrower Certification of Property Physical and Environmental Condition, has been revised to add the Borrower certification of seismic risk.

The new seismic risk requirements go into effect for all SRAs ordered on or after June 1, 2013. In addition, Sellers must begin requiring the use of the new versions of Form 1105 and Form 1117 on this date. We recommend that the Seller/Servicer read Chapter 16 in its entirety to gain an understanding of Freddie Mac's requirements for reporting seismic risk.

Postpurchase Assessments

We are revising the requirements for postpurchase assessments in Chapter 40 to align them with the provisions of the Pooling and Servicing Agreements (PSA). For a Mortgage with an unpaid principal balance ("UPB") of less than or equal to one million dollars, both the Loan Management Form (LMF) and the Annual Inspection form (AIF) must be submitted at the end of the calendar quarter of the biennial anniversary of the Origination Date. This change is effective for assessments due on or after July 1, 2013.

Following the first anniversary of the origination date of a CME Mortgage, all of the different assessment types will be required, including the Annual Income and Expense Assessment (AIE), the Quarterly Income and Expense Assessment (QIE), the LMF and the AIF on the same

schedule as that described above. This change is also effective for assessments due on or after July 1, 2013.

In other changes applicable to the AIF, Freddie Mac will offer to inspect Properties where the Mortgage has a Risk Rating greater than seven. Each December, instead of providing Servicers with a list of Properties that Freddie Mac will inspect, Freddie Mac will ask each Servicer to indicate whether it wants Freddie Mac to inspect a Property or if the Servicer wants to perform the inspection itself.

We have revised Sections 40.2(b) and 40.14 to reflect these changes.

Mortgages secured by a Property owned by a Cooperative

We are no longer requiring Servicers to submit the Quarterly Income and Expense Assessment (QIE) for Mortgages secured by a Property owned by a Cooperative. In addition, unless requested by Freddie Mac, Servicers will not be required to provide the current maintenance roll or statement of income and expenses for the Cooperative Borrower's operation of the Property at the end of each calendar quarter following purchase.

We have revised Sections 40.2(a)(1), 40.11 and 40.14(a)(1) to reflect this change. We have also modified Section 40.11 to reserve to Freddie Mac the right to require the most recent approved annual operating budget and the most recent capital expense study/plan at our request.

Changes to Insurance Requirements

Third Party Consultants

Effective June 1, we are revising our insurance requirements for certain third party consultants. Section 31.26 has been revised to identify which third party consultants are required to carry levels of general and professional liability coverage.

Ordinance and Law Insurance Coverage

Ordinance and Law coverage for a legally non-conforming Property is not required if the Seller/Servicer provides Freddie Mac with evidence of a 100 percent rebuild allowance. We are revising the language of Section 31.12 to clarify that Ordinance and Law coverage is required if the zoning law rebuild allowance is restricted to less than 12 months under which the reconstruction must be under permit or construction. This change is effective immediately.

Updates to Contact Information for Insurance

We've added references to the Multifamily TAH Underwriter as one of the points of contacts in Sections 31.2(b), 31.14, 31.19(a) and 31.27.

Custodial Account Depository Ratings

We are adopting a single-tier rating system with regard to our Custodial Account Depository rating requirements. Upon establishing Custodial Accounts and on an ongoing basis, the Servicer must ensure that each FDIC-insured depository institution holding custodial accounts meets the minimum acceptable rating of at least two of the following rating agencies: Fitch Ratings, Standard & Poor's Ratings or Moody's Investors Service.

We have also clarified that for Cap Fee Reserve Funds or Principal Reserve Funds on TAH Bond Credit Enhanced Mortgages, the minimum rating requirements for this type of Custodial Account are established at the fund level.

Sections 52.2 and 52.9 have been revised to reflect these changes.

Revisions to Diversity Categories on Forms 16M and 1107M

We have updated Form 16M and Form 1107M to reflect revised definitions for the diversity categories, consistent with the Housing and Economic Recovery Act of 2008 (HERA) and the Federal Housing Finance Agency (FHFA) implementing regulations. We are also adding two additional diversity categories relating to Seller/Servicer ownership information that Freddie Mac will begin collecting. The updated forms have been posted to FreddieMac.com and must be used beginning April 30, 2013. Form 1107M can also be found on AllRegs.

Title Insurance Policy, Forms and Endorsement

We have updated our title insurance policy provisions to clarify our requirements and to reflect changes to industry forms including updates to ALTA Form names, endorsements, and adoption dates. Please note the following changes in particular:

- Section 29.1(e) has been revised to require that the title insurance policy include Freddie Mac's successors or assigns as named insured
- Section 29.1(g) has been revised to require that the following endorsements be attached to the title insurance policy:
 - ALTA Form 17.2-06 Utility Access endorsement
 - ALTA Form 28.1-06 Encroachments – Boundaries and Easements (Adopted 04-02-2012)
 - ALTA Form 35.1-06 Minerals and Other Subsurface Substances (Adopted 04-02-2012)
 - Waiver of Compulsory Arbitration Endorsement
 - Mortgage Recording Tax Endorsement

Section 29.1(g) has also been revised to require that the Access endorsement (or substitute) indicate that the Property is contiguous to and has pedestrian and vehicular access to a physically open street identified by name.

- Sections 29.1(i) and 29.1(j) have been revised to require that the title policy include the date of recording when identifying recorded documents.
- Section 29.1(i) has been revised and Section 29.1(k) has been added to require an Insured Closing Protection Letter if the recordation of the documents or the escrow and disbursement of funds in connection with the origination of the Mortgage are being handled by a title agent rather than a branch officer of the title insurer.

- Section 29.2 has been revised to require more detail in Seller’s analysis of title exceptions, to provide greater detail on safe harbor categories, and to add the following safe harbor categories:
 - Waterfront Property or Property Bounded by Water
 - Redevelopment and Urban Renewal Plans
 - Improvements Designated as Landmarks
 - \$1.00 Condemnation Clause in Deeds
- Section 29.3 has been updated to remove the requirement that the Surveyor’s Certifications be for the benefit of Freddie Mac and its successors and assigns.
- Section 29.5 has been updated to require Seller’s Counsel’s Certification for both CME and non-CME loans

Leases for Oil, Gas and Minerals

We have added language to Section 8.2(b) to indicate that Freddie Mac considers leases for oil, gas and minerals located on or beneath the Property to be commercial usage. We have also revised Section 8.11(a)(3) to explicitly require the inclusion of income from leases for oil, gas and minerals when determining whether a Commercial Lease Analysis Form must be submitted.

Housekeeping and Clarifications

Repairs

In our October Guide Bulletin we announced Freddie Mac’s new requirements for the treatment of repairs on the property condition report. At this time, we are clarifying that descriptions of Priority Repairs listed in the Loan Agreement must clearly describe the work to be completed and must state a specific and realistic completion date. This change can be found in Section 8.16.

Ground Leases

We are revising the language of the Ground Lease Analysis form found on FreddieMac.com to make it clear to Seller’s counsel that that any provision requiring a tenant to rebuild following a substantial casualty or condemnation must be highlighted for Freddie Mac. We have made related changes to Guide Section 30.2(b)(5).

Survey waivers for Supplemental Mortgages

Section 29.5(c) has been revised to clarify that a Seller must request a waiver of the survey requirement with respect to a Supplemental Mortgage even when Freddie Mac has waived the requirement for a survey with respect to the senior Mortgage. We have revised 32.4(i)(4) to cross-reference Section 29.5(c) rather than repeating the requirements of Section 29.5(c) in Section 32.4.

Removal of Exhibit 11, Targeted Affordable Housing Fee Schedule

We have removed Exhibit 11 from the Guide since it no longer applies to TAH Mortgages utilizing the prior approval model. Sellers are to use the current term sheets published on FreddieMac.com in place of Exhibit 11.

Addition to the Prescreen Package Checklist

For TAH Bond Credit Enhancement Mortgages, we are including in the Guide Seller's existing obligation to provide us with a copy of the Conflicts Check Form, which provides a list of the parties associated with the issuance and Servicing of the bonds, a list of the law firms representing each of these parties, and certain transaction details. Accordingly, we are adding the Conflicts Check Form to Section 55.3 of the Guide and to the Targeted Affordable Housing (TAH) Prescreen Package Checklist found in Section 1.25 of Exhibit 1.

Loan Documents

For consistency, we have revised the Guide to use the term "Loan Document" or "Loan Documents" in place of the term "Security Instrument", when applicable.