

TO: Freddie Mac Multifamily Sellers and Servicers

April 30, 2015

SUBJECTS

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

- Including in the Guide the conditions under which Freddie Mac delegates to the Servicer the authority to calculate the prepayment amount and prepayment premium amount in connection with a full prepayment of a Mortgage
- Making changes to our requirements for interest rate hedge agreements, including permitting the use of a percentage of the London Interbank Offered Rate (LIBOR) as the variable interest rate index for swaps or caps in lieu of SIFMA and specifying requirements for the calculation of payments for an interest rate swap
- Revising our requirements for Priority Repairs and repair escrows, including a new requirement to identify the most urgent of Priority Repairs as PR-90 repairs on the property condition report
- Revising our requirements for a Property's electrical capacity and overload protection
- For non-SBL Mortgages, revising our requirements for various third-party reports: the wood-damaging insect inspection report, the certification from a Property's pest control provider, and the post-construction analysis report for a Forward Commitment
- Revising our requirements for post-purchase reporting, including:
 - Changing the threshold for biennial property inspections from \$1 million to \$2 million
 - Adding a new provision with respect to a Supplemental Mortgage authorizing the Servicer to provide the information to the servicer of any securitized senior Mortgage
 - Requiring Servicers to provide details on inspection reports regarding Repair Agreement items, and clarifying the nature of follow-up required for risks identified during the inspection
- Adding a clarification to our requirements for Property Improvement Alterations
- Modifying references to our lease-up offerings to reflect more descriptive program names
- Updating Exhibit 3 to reflect recent changes to the Breakage Fee formula
- Revising our definition of "Securitization" to reflect that a loan may be assigned to a grantor trust
- Clarifying requirements as to the origination of a Supplemental Mortgage
- Making revisions to various forms

We are also making changes to the corresponding chapters of the Small Balance Loan (SBL) Addendum.

Effective dates

For all Mortgages except SBL Mortgages, the changes regarding the identification of PR-90 repairs on Form 1105, Property Condition Assessment, go into effect for all assessments ordered on or after April 30. Freddie Mac will notify SBL Seller/Servicers when the changes regarding PR-90 repairs will go into effect for SBL Mortgages.

The change in the timing of the submission of post-purchase property inspection reports applies to the submission of Annual Inspection Forms (AIFs) and MBA Property Inspection Forms beginning in 2016.

All other 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,

David Brickman
Executive Vice President
Multifamily

Delegation of the Authority to Calculate the Prepayment Amount and Premium

Freddie Mac is now delegating to the Servicer the authority to calculate the prepayment and prepayment premium amounts and to inform the Borrower in connection with a full prepayment of a Mortgage meeting all of the following conditions:

- The Mortgage is owned by Freddie Mac.
- The Mortgage has a prepayment premium that is calculated as a percentage of the unpaid principal balance of the Mortgage.
- The Mortgage is current, with no pending workouts, delinquencies or events of default under the terms of the Loan Documents.
- The Mortgage is not being refinanced with a new loan which Freddie Mac has committed to purchase.
- There are no pending asset management transactions or waiver requests with respect to the Mortgage.

The Servicer must advise Freddie Mac of the delegated prepayment calculation amount within two Business Days after the Servicer quotes the prepayment premium calculation to the Borrower or the Borrower's agent. Freddie Mac will confirm all delegated prepayment premium calculations following the payoff of the Mortgage, and will advise the Servicer of any shortfall or overpayment.

The Servicer must remit the amount of any shortfall to Freddie Mac within 10 days following Freddie Mac's notice of a shortfall to the Servicer. If the Servicer does not satisfy the shortfall within 10 days, Freddie Mac will charge penalties and/or interest and/or revoke this delegation for future payoffs. If Freddie Mac determines that it has received an overpayment, Freddie Mac will return the amount of the overpayment to the Servicer for reimbursement to the Borrower. Freddie Mac may revoke the delegation to calculate the amount of prepayment premiums at any time by written notice to the Servicer.

For Mortgages that do not meet the conditions listed above, the Servicer must notify Freddie Mac of the request for prepayment before it informs the Borrower of any prepayment premium amount.

These changes can be found in Section 51.1(b), 51.1(c), 51.1(d), 51.1(e), 51.1(i), 51.1(j), 53.4 and 53.5(c).

Interest Rate Hedge Agreements

Currently, Section 28.12(k) of the Guide requires the variable interest rate used in determining the monthly payment for interest rate caps and swaps to be the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index Rate. Due to the limited depth of the SIFMA market, we are now permitting the variable interest rate for a swap or a cap to be either the SIFMA rate or a percentage of the London Interbank Offered Rate (LIBOR) index, as such percentage is determined by Freddie Mac, from time to time, to most closely approximate SIFMA.

Also in Section 28.12(k), we are adding a description for the calculation of monthly payments for an interest rate swap, which must be equal to the difference, if any, by which the interest at the variable interest rate on the notional principal amount exceeds interest at the fixed interest rate on the notional principal amount under the swap.

Priority Repairs and Repair Escrows

We are now requiring the property condition consultant to identify a Priority Repair on the property condition report as a PR-90 repair if it represents an imminent Life Safety Hazard to tenants or if the uncorrected repair is causing ongoing substantive damage to the Property. PR-90 repairs must be completed within 90 days after the Origination Date; all other Priority Repairs must be completed within 180 days after the Origination Date. Priority Repairs requiring longer than 180 days for completion will be considered on a case-by-case basis and must be completed within 12 months after the Origination Date.

The Loan Agreement must require escrows for all repairs when the total cost of all Priority Repairs exceeds

- For SBL Mortgages, five percent of the loan amount
- For all other Mortgages, 0.25 percent of the loan amount or \$25,000, whichever is greater

These changes can be found in Sections 8.16, 14.3(b), 14.3(c), 14.4, 14.5(a), 14.6, 14.6(c), and 16.1.

We are also changing the name of Form 1105, Property Condition Assessment, to distinguish it from Form 1104, Physical Risk Report, which is used for SBL Mortgages only. Form 1105 has been revised to permit the property condition consultant to identify a PR-90 repair; additional changes to Form 1105 are described in the paragraph describing forms changes below. Freddie Mac will notify SBL Seller/Serviceicers once Form 1104, Physical Risk Report, has been revised for PR-90 repairs.

Evaluating a Property's Electrical Capacity and Overload Protection

For the property condition report, we are revising our requirements for evaluating a Property's electrical capacity to specify our requirements for the consultant if service levels below the minimum acceptable amperage of 60 amperes per unit are encountered or reported. The consultant must review the results of a load analysis for each affected unit type (as performed by a licensed electrician or electrical engineer, and completed based on the most current NEC guidelines) and make corrective recommendations as appropriate. Regardless of the service level or the results of a load analysis, the Property must meet the minimum requirements of the National Electric Code and all local building codes.

With respect to overload protection, all apartments must, at a minimum, be provided with circuit breakers or tamper-proof (S-type) fuses. If S-type fuses are present, the consultant must determine the adequacy of the installation and associated components, and whether an upgrade to circuit breakers is warranted.

We have revised Section 14.5(c) and the electrical section of Form 1105, Property Condition Assessment, to reflect these changes.

Third-party Reports

We are making the following revisions to our requirements for third-party reports for non-SBL Mortgages:

- In Section 8.2(e), we have added a requirement that the wood-damaging insect inspection report or the certification from the Property's current pest control provider must be in compliance with all applicable federal and State regulations.
- In Section 15.8(a), we are requiring the property inspection documented in the post-construction analysis report for a Forward Commitment to meet the requirements of Sections 14.3 through 14.7.

Post-purchase Reporting Requirements

We are making various changes to our requirements for post-purchase reporting. For inspections due beginning in 2016, we are changing our criteria for the timing of submission of the property inspection report (AIF or MBA Property Inspection Report) for Mortgages with a UPB of less than \$2 million. Previously, we used a UPB of \$1 million as the threshold for biennial reporting. This change will ensure greater consistency across Freddie Mac's securitized loans and Mortgages held by Freddie Mac.

We are also clarifying the difference between the Annual Inspection Form and the MBA Property Inspection Form.

We are adding a new provision for Supplemental Mortgages. If the Servicer is reporting QIE and AIE information to Freddie Mac with respect to a Supplemental Mortgage related to one or more securitized senior lien Mortgages, Freddie Mac is authorizing the Servicer to provide that same information to the servicer of any securitized senior Mortgage.

Finally, we are asking Servicers to include in the property inspection report the remediation of any items that were included in a Repair Agreement (a Repair Agreement, Repair Escrow Agreement, Repair Agreement with LOC, Repair and Escrow Agreement, Loan Agreement Rider relating to repairs or other agreement involving repairs or improvements to the Property) to ensure that Freddie Mac has a complete understanding of compliance with the terms of the Repair Agreement. We are also clarifying that a Servicer's protocol for follow-up on Deferred Maintenance items or other items identified at the Property should be based on the level of risk.

These changes can be found in Section 40.2(a), 40.2(b), 40.2(d), 40.6 and 40.6(d).

Clarification Concerning Property Improvement Alterations

We are noting in Section 43.23 that the provisions concerning the notification, monitoring and completion of Property Improvement Alterations do not apply to repairs, capital replacements, restoration and other work required to be performed at the Property pursuant to the terms of the Loan Document.

Acquisition Lease-Up and Refinance Lease-Up

We are modifying Guide references to our lease-up offerings to reflect recent clarifications. The offerings have been reorganized along two paths, the Refinance Lease-Up and Acquisition Lease-Up, with more flexible requirements for a loan with both premier sponsorship and Property in a premier market. These changes can be found in Sections 12.27, 17.8, 17.10, 17.15, and 17.19.

Updates to Guide Exhibit 3, Breakage Fee Formula

We are updating Guide Exhibit 3 to reflect the changes recently made to breakage fees for fixed-rate Mortgages. Effective March 4, the breakage fee will be the greater of 0.5 percent of the rate-locked Mortgage amount or the breakage fee formula found in Exhibit 3, but will not exceed two percent of the rate-locked Mortgage amount. The breakage fee formula itself is not changing.

Updated Definition of Securitization

We are revising our Glossary definition of the term “Securitization” to reflect that we now expressly permit assignment of the Mortgage to a grantor trust as well as to a REMIC trust.

Clarification Concerning Supplemental Mortgages

We are revising Section 20.3(1) to state that a Seller/Servicer originating a Supplemental Mortgage must be a Program Plus Seller/Servicer in good standing that services the Freddie Mac First Mortgage, originated the Securitized First Mortgage, or is simultaneously originating a new First Mortgage.

Revisions to Forms

On Form 1115, Borrower and Borrower Principal Certificate, we are:

- Clarifying that Borrower Principal may refer to any non-member manager of a limited liability company (LLC)
- Requiring the Borrower to provide an estimate of its net worth, the total amount of all contingent liabilities not included in the estimate of net worth, and the estimated total amount of liquid assets as of the date of the estimate of net worth
- Requiring the Borrower to provide a complete list of its contingent liabilities if they exceed 50 percent of the Borrower’s estimated net worth

In addition to the repair-related changes to Form 1105, Property Condition Assessment, we are removing a reference to Fireplaces, adding a reference to a Fitness Center, and combining Spa and Sauna into a single line, and revising the section on electrical capacity to reflect the change to Section 14.5(c).