

Bulletin

NUMBER: M2014-3

TO: Freddie Mac Multifamily Sellers and Servicers

May 1, 2014

SUBJECTS

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

- Including the redesign of the final delivery process in the Guide
- Revising our requirements for the delegation of approval authority, for assessments and postpurchase reporting, transfers of ownership, condemnation/eminent domain, property management changes, commercial/non-residential leases, periodic data updates, repurchases and other miscellaneous requirements to reflect the consolidated Loan Documents of March 1, 2014 (March 1 Loan Documents)
- Revising our requirements for notifying third parties of the origination of a Mortgage and its assignment to Freddie Mac, and including new requirements for the Final Delivery Package
- Simplifying the calculation used to determine the amount of fidelity and errors and omissions (E&O) insurance that the Seller/Servicer must maintain
- Removing a requirement that the phases be contiguous for cross-collateralization of a Property that is part of a phased development
- Revising our requirements to include the circumstances under which we require the Servicer to provide us with the Borrower's plan to address risks identified in the Annual Inspection Form (AIF)
- Revising our requirements for setting up and closing a Custodial Account
- Making additional administrative revisions and clarifications

Effective dates

We are requiring Seller/Servicers to adhere to the redesigned final delivery process announced in this Bulletin when preparing Final Delivery Packages for all loans documented on Letters of Commitment executed and early rate-lock applications submitted on or after May 1, 2014. All of the other changes 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, with the exception of the revisions to Chapter 32. Since all of Chapter 32 has been rewritten, we are displaying this text in black on AllRegs. If you have any questions about this Bulletin, please call your Freddie Mac representative.

Sincerely,

David Brickman
Senior Vice President
Multifamily

Redesigned Final Delivery Process

We are pleased to include the redesigned final delivery process in the May 1 Guide Bulletin. Among other changes, the redesigned process permits the Seller to select a preferred funding date. An Accelerated Funding date is also available upon payment of a fee. The redesigned final delivery process must be used to deliver any loan which is documented on a Letter of Commitment executed or an early rate-lock application submitted on or after May 1, 2014.

Under the redesigned process, the Final Delivery Package now consists of a Core Package and a Non-Core Package, each of which has an electronic delivery portion and a hardcopy delivery portion. Both the Core and the Non-Core Packages must be delivered by the Mandatory Delivery Date identified in the Letter of Commitment or the early rate-lock application. Unless otherwise specified, funding will occur once Freddie Mac's review is completed, but no later than the Mandatory Funding Date.

If the Seller prefers an earlier date than the Mandatory Funding Date, the Seller may opt to deliver the Core Package for review prior to delivering the Non-Core Package. The Seller can request in writing its preferred funding date, which normally may be no earlier than five Business Days after the receipt of the Core Package. However, if the Seller prefers a funding date earlier than five Business Days after the receipt of the Core Package, the Seller may request Accelerated Funding, ranging from one to four Business Days after the delivery of the Core Package. If the Accelerated Funding is approved, the Seller must pay a non-refundable Accelerated Funding fee prior to purchase.

In the event of an Accelerated Funding, the Non-Core Package must still be delivered by the Mandatory Delivery Date. If Freddie Mac purchases the loan prior to its receipt or review of the Non-Core Package, the Seller must address any post-funding issues within the required timeframe specified in the post-funding letter.

These changes can be found throughout Chapter 32, which has been rewritten. We encourage Seller/Service providers to review Chapter 32 in its entirety to ensure that they understand the redesigned final delivery process.

We are also revising the Guide Glossary to add definitions for Final Delivery Instructions (described in further detail below) and Mandatory Funding Date, and to revise the definition of the Final Delivery Package. As a result of the rewrite, we are updating Chapter 32 references throughout the Guide and are including, where applicable, references to the Final Delivery Instructions.

In addition to the changes to the Guide, we have revised the documentation used to support the final delivery process, as follows:

- The detailed instructions used to prepare documents for inclusion in a Final Delivery Package have been removed from the Guide and are now located on the Purchase Resources page on FreddieMac.com. Sellers must submit their Final Delivery Package in accordance with the Final Delivery Instructions – Cash and Bonds for the following Multifamily Programs:
 - Multifamily Conventional Cash Mortgages
 - Multifamily Supplemental Mortgages
 - Multifamily Seniors Housing Mortgages
 - Targeted Affordable Housing Cash Mortgages
 - Bond Credit Enhancements
 - Forward Commitments (Final Delivery Packages only; for Initial Delivery Packages, use the Final Delivery Instructions – Forward Commitment Initial Delivery)

- The Final Delivery Tables of Contents have been revised to provide
 - Separate lists for the Core and Non-Core Packages
 - Separate list for the TAH Bond Final Delivery Package
- DMS Mapping documentation has been updated to reflect changes in the Final Delivery Tables of Contents

The updated Final Delivery Tables of Contents and related DMS mapping documentation continue to be available on the Purchase Resources page of FreddieMac.com.

New/Consolidated Multifamily Loan Documents

With this Bulletin we are updating our requirements for postpurchase reporting, the monitoring of repairs, transfers of ownership, special servicing requests, repurchases and indemnification, and accounting and reporting requirements in support of the conversion to the consolidated March 1 Loan Documents. Seller/Servicers and their counsel should review the revisions, particularly the following changes:

Delegation of Approval Authority

We are revising our requirements for the approval of requests for an extension to a Repair Agreement, disbursement for additional capital replacement items, a utility or telecommunications easement, and a partial release of a Property. In addition to the conditions that currently must be met for Servicers to approve these requests, we are adding the following conditions:

- The Mortgage was originated on Loan Documents labeled “Portfolio” or Loan Documents with a revision date prior to 3-1-14 and which are not labeled “CME” or “Portfolio”
- The Servicer has not received notification from Freddie Mac that the Mortgage has been designated for inclusion in a Securitization
- The Mortgage does not back a Freddie Mac Multifamily Participation Certificate or a Freddie Mac tax-exempt or taxable Multifamily bond securitization

Sections 39.4(b), 39.5(b), 43.10(a) and 43.11(a) have been revised to reflect these changes.

Assessments and Other Postpurchase Reporting

We are removing the statement that Seller/Servicers are not required to provide assessments for CME Mortgages during the first calendar year following purchase of the Mortgage unless requested to do so by Freddie Mac. In addition, the Guide has been revised to refer Seller/Servicers to the Loan Documents regarding the assessment of a late charge when Borrowers fail to submit required documentation on time. These changes can be found in Sections 40.2(b) and 40.14.

Transfers of Ownership

We are revising the list of documents to be submitted to Freddie Mac for a Transfer of Ownership, as follows:

- For the delivery of documents following the closing of a preauthorized Transfer of Ownership
 - We are removing the requirement that the Servicer submit a copy of an updated Capital Markets Execution Loan Summary
 - For all Mortgages, we are requiring the submission of an Assignment of Management Agreement

- With the application for approval of a Transfer of Ownership requiring Freddie Mac consent, for all Properties, we are requiring a Moisture Management Plan that the Servicer has certified meets the conditions of Section 8.3(a)
- For document deliveries following the closing of a Transfer of Ownership approved by Freddie Mac
 - We are removing the requirement that the Servicer submit a copy of an updated Capital Markets Execution Loan Summary
 - For all Mortgages, we are requiring the submission of a signed UCC, a Servicer's certification regarding "specially designated nationals" on Treasury's OFAC list, and a signed Assignment of Management Agreement and Subordination of Management Fees

These changes can be found in Sections 41.3(c), 41.3(d), 41.4(a) and 41.4(g).

Condemnation or Eminent Domain

With respect to condemnation/eminent domain, for all Mortgages, we are now requiring Servicers to advise Freddie Mac if either of the following circumstances exists:

- The Property will be taken whole and the consideration to be paid to the Borrower will be insufficient to satisfy the UPB of the Mortgage
- The Property will be taken in part and the ratio of the UPB of the Mortgage to the current appraised value of the remaining Property is higher than the LTV Ratio of the Mortgage immediately before the taking, even after applying any consideration to reduce the UPB of the Mortgage

This change can be found in Section 43.12.

Property Management Changes

Freddie Mac must now approve any request for a property management company change. Upon receiving a request for approval or notice of a property management change, the Servicer must notify Freddie Mac within three Business Days of receiving the request or notice, and must submit the following to Freddie Mac:

- Completed Property Management Change Request, available via FreddieMac.com
- Copy of the Borrower's request explaining the reason for the change
- Copy of the proposed new property management contract
- Resume or brochure for the proposed management company

The Guide also outlines the factors that Freddie Mac may consider when conducting a review of the property management change request. If Freddie Mac approves the property management change, it will send an approval letter to the Servicer. Within the time specified in the approval letter, the Servicer must deliver to Freddie Mac the documents specified in the approval letter.

These changes can be found in Sections 43.19(a) through (d).

Commercial/non-residential leases

Freddie Mac must now approve any new or modified non-residential (commercial) lease which is not expressly permitted by the Loan Documents, and any new lease related to drilling, oil or gas exploration at the Property. Upon receiving a request for approval of any new or modified commercial lease or any oil or gas lease, the Servicer must notify Freddie Mac within three Business Days and must submit the completed General Servicing Request available via FreddieMac.com, along with any necessary supporting documentation.

The Guide also outlines the factors that Freddie Mac may consider when conducting a review of the requested commercial lease or drilling, oil or gas lease. If Freddie Mac approves of the lease request, it will send an approval letter to the Servicer. Within the time specified in the approval letter the Servicer must deliver to Freddie Mac a copy of the signed lease agreement, a copy of the Lessor's Estoppel Certificate, and any additional documentation specified in the approval letter.

These changes can be found in Sections 43.24(a) through (d).

Periodic Data Updates

Freddie Mac is revising its requirements for the collection of current mortgage and Custodial Account balances:

- When requested by Freddie Mac, the Servicer must submit a data update for any Mortgage within three Business Days following the request, using the template provided by Freddie Mac
- The name of the template has been changed from the CME Data Update Template to the Sales Data Update Template

These changes can be found in Section 43.25.

Repurchases

We are revising Section 47.2 to include a reference to the Seller/Servicer Representations and Warranties for any Mortgage originated using Loan Documents with a revision date on or after March 1, 2014. For any CME Mortgage originated using Loan Documents with a revision date prior to March 1, 2014, the Seller's Capital Markets Execution Representations and Warranties continues to apply.

We are revising Section 47.4 to state that the Seller/Servicer's repurchase price will equal Freddie Mac's repurchase price under the applicable mortgage loan purchase agreement or applicable pooling and servicing agreement. The repurchase price calculation in the Guide continues to apply to all Mortgages for which the repurchase price is not indicated in the mortgage loan purchase agreement or the pooling and servicing agreement.

Miscellaneous Changes in Support of the March 1 Loan Documents

Throughout the Guide we are

- Removing additional references to CME or Portfolio Mortgages
- Specifying that the terms of the Loan Documents, including any fee amounts, take precedence over any conflicting requirements in the Guide
- Updating form names, where needed, and removing references to forms no longer in use
- Revising the definition of Loan Documents in the Glossary
- Replacing the term Mortgage Documents with the term Loan Documents

In addition, we are updating Freddie Mac contact information in the Guide and Guide Directory.

Third Party Notices

We are now requiring that the PLIM include the Seller/Servicer's legal counsel's analysis of whether, upon origination of the Mortgage and/or the subsequent assignment of the Mortgage to Freddie Mac, written notice to a third party would be required or generally advisable, including for the purpose of entitling the Seller and/or Freddie Mac to any legal rights. Seller/Servicer's legal counsel should review

documents such as ground leases, commercial leases, condominium declarations, regulatory agreements, reciprocal easement agreements, shared use agreements, homeowners' association documents, subordinate loan documents and HAP contracts to make this determination.

In addition, we are requiring that the Seller/Servicer include in the Final Delivery Package copies of written notices provided to third parties under any documents, instruments or agreements affecting the Property, whether recorded or unrecorded, that the Seller/Servicer's legal counsel has determined are required and generally advisable in connection with the origination of the Mortgage and/or the subsequent assignment of the Mortgage to Freddie Mac.

We have added Section 6.4(1) to reflect the change in requirements for the PLIM, and have included this change to the Final Delivery Package in the Final Delivery Instructions.

Fidelity and E&O Insurance

We are simplifying the calculation of the base used to determine the amount of coverage for the Seller/Servicer's fidelity and E&O insurance policies. Effective immediately, the base is defined as the aggregate unpaid principal balance of all loans covered by:

- The fidelity insurance policy
- The E&O insurance policy

In addition, when the Seller/Servicer submits documentation to Freddie Mac as proof of fidelity and E&O insurance coverage, the documentation must include the aggregate unpaid principal balance of all loans covered by the fidelity insurance policy and by the E&O insurance policy.

These changes can be found in Sections 3.15(b), (c) and (d).

Cross-collateralization of Properties

For a Property that is part of a phased development, we are removing the requirement that loans on multiple phases within a phased development be contiguous in order to be cross-collateralized. This change can be found in Section 8.6(e).

Submission of Borrower Plans with the AIF

We are revising the Guide to require the Servicer to provide us with a copy of the Borrower's plan for addressing risks identified in the AIF if the Servicer determines that the risk is significant or increases the Property's performance risk. If the Borrower's plan is unknown at the time of AIF completion, the Servicer must send a follow-up letter to the Borrower within 30 days of the property inspection requesting a copy of the Borrower's plan and the projected time frame for completion. The Servicer must upload a copy of this letter into PRS.

We are also clarifying our requirements for photographs submitted with the AIF. If the Servicer believes that fewer than 20 photographs are sufficient for a Property, the Servicer must provide a justification in the comment section of the AIF.

We have revised Sections 40.6(c) and (d) to reflect these changes.

Custodial Accounts

We are eliminating the requirement that Seller/Servicers provide to Freddie Mac a voided blank check or Magnetic Ink Character Recognition (MICR) sheet when they establish a Custodial Account or modify their existing bank routing instructions. We are adding a requirement that the Servicer must notify Freddie Mac when it closes a Custodial Account, and must send to Freddie Mac a bank statement confirming a zero balance at the time the Custodial Account is closed.

These changes can be found in Sections 52.6 and 53.7(h). We have also included other minor revisions in Section 53.7.

Environmental Assessment and Property Condition Forms

We are revising the Environmental Assessment Form – Form 1103 and the Property Condition Form – Form 1105 to add to the consultant’s certification a statement that “no changes or additions have been made to the standard provisions of this form other than those expressly approved in writing by Freddie Mac”. We have also added a per unit/per year calculation at the end of Section IV of the Form 1105.

The updated forms are available on FreddieMac.com and on AllRegs.

Additional Administrative Revisions and Clarifications

Environmental Assessment of PCBs

We have revised Sections 13.11(a), (b) and (c) to clarify the actions that the environmental consultant must take when assessing and resolving PCB issues, which will depend on whether the Property was constructed before or after July 2, 1979 and whether the equipment being assessed is owned by a utility.

New version of the List of Reserve Held – Form 1056

In response to customer feedback, we are providing an easier-to-use version of the List of Reserves Held in Excel format. The new form has been posted on FreddieMac.com and on AllRegs.

Updates to Chapter 9: Borrower Fundamentals

We are providing more descriptive names for three sections of Chapter 9 that deal with Borrower requirements. These changes can be found in Sections 9.2(b), 9.2(c) and 9.2(d).

Transfers of Servicing

In Section 42.11, we are clarifying that if any Servicing or accounting problem in connection with a Transfer of Servicing cannot be resolved without the involvement of the transferor, it is the transferee, and not the Borrower, that must initiate the contact with the transferor.

Reserve Requirements

With respect to the Reserve requirements in Section 39.2(a), we are clarifying that the monthly installment referenced in this section is the amount payable under the Note.