



# Bulletin

**NUMBER: M2017-4**

**TO:** Freddie Mac Multifamily Sellers and Servicers

May 5, 2017

## **SUBJECTS**

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

- Adding requirements for Moderate Rehabilitation (Mod Rehab) Mortgages
- Announcing that we are accepting Electronic Signatures of Borrowers, Borrower Principals, guarantors and Seller/Servicers on all numbered Guide forms (unless specifically required otherwise), third party reports and certain other documents
- Revising the Guide to link to a new United States Geographical Survey (USGS) tool which is used to identify Elevated Seismic Hazard Regions
- Updating our insurance requirements to:
  - Reflect current market conditions with respect to cancellation provisions for liability policies
  - Revise the requirements for windstorm coverage provided by blanket insurance policies
- Updating our processes for authorizing individuals to provide wire instructions and for confirming the accuracy of wire instructions provided by the Seller/Servicer
- Requiring the following changes regarding the preliminary legal issues memorandum (PLIM):
  - The most current version of the Preliminary Legal Issues Memorandum – Checklist Form must be used to prepare the PLIM required at origination
  - Additional analysis must be included in the PLIM if any Borrower Principal or guarantor is an investment fund
- Updating the requirements for public record searches for SBL Mortgages
- Requiring the use of the new Multifamily Document Transmittal Form when delivering hardcopy documentation without a Table of Contents
- Revising our requirements for the delivery of new Borrower and new guarantor opinions following a Transfer of Ownership
- Specifying the documents that a Servicer must submit when requesting Freddie Mac approval of a new or modified commercial lease or oil and gas lease for an SBL Mortgage
- Clarifying change notification requirements when a major change occurs in a Seller/Servicer's ownership
- Making several administrative changes:
  - Clarifying the requirements for title issues listed in the PLIM and analyzed in the Title Exception and Survey Analysis (TESA)
  - Updating the requirements for Replacement Reserves for Supplemental Mortgages
  - Revising the Guide to replace the term adjustable rate Mortgage (ARM) with the term floating rate Mortgage
  - Removing duplicative and unnecessary language from our requirements for post-purchase reporting
  - Removing an outdated provision applicable to Supplemental Mortgages
  - Making administrative updates to all of our Guide Forms

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,

Deborah Jenkins  
Senior Vice President  
Multifamily Underwriting and Credit

Michael Lipson  
Senior Vice President  
Multifamily Asset Management and Operations

## Mod Rehab Mortgages for Conventional Cash Mortgages

We are adding to the Guide the Moderate Rehabilitation (Mod Rehab) product, which is available for conventional cash Mortgages. A Mod Rehab Mortgage is collateralized by a Property that can benefit from a capital infusion by the Borrower to upgrade the Property. The Mortgage consists of an Interim Phase and a Permanent Phase. During the Interim Phase, renovation takes place. At the end of the Interim Phase, the loan, with an unpaid principal balance reflecting the aggregate of the initial funding and all subsequent draws, converts to the Permanent Phase.

The Borrower will be required to execute a Disbursement Agreement and the Servicer will be required to execute a Disbursement Servicing Agreement, which document their respective responsibilities.

At underwriting, the Seller/Servicer must submit renovation documentation and a pre-construction analysis report (instead of a property condition report) with the underwriting checklist. In preparing the Appraisal for a Mod Rehab Mortgage, the appraiser must provide two values for the Property: an as-is market value, and a hypothetical as-if renovated and stabilized today market value.

During the Interim Phase, the Servicer will process periodic requests for disbursements, prepare draw packages to be submitted to Freddie Mac, and disburse the appropriate funds as requested to the Borrower. The renovation period cannot extend beyond the Interim Phase, and is subject to the time limits set forth in the Disbursement Agreement. All units must be habitable no later than six months prior to conversion to the Permanent Phase. All renovation work must be completed no later than three months prior to conversion.

Upon completion of the renovation work, the Borrower must submit to the Servicer all documentation outlined in the Disbursement Agreement, and will receive the retainage and holdback amounts specified in the Disbursement Agreement. The Mortgage's initial funding and draws will be converted to one aggregate fixed or floating rate Note.

We've included these changes in Sections 12.28, 14.1, 17.1(a), 17.4(a), 17.10, 39.9, 39.9(a), 39.9(b), 39.9(c), 40.2(b), 40.16, 40.16(d), and throughout Chapter 15, which has been renamed "Construction Reports". In Section 55.2, to indicate underwriting package requirements specific to Mod Rehab Mortgages, we have revised the entries for Appraisals, the mortgage transaction narrative analysis, the pre-construction analysis report, the post-construction analysis report, the property condition report, and have added an entry for renovation documentation for Mod Rehab Mortgages.

In addition, we have revised Exhibit 1, Section 1.1: Conventional Cash Underwriting Checklist to include the renovation documentation and pre-construction analysis report that are required to be submitted with the full underwriting package. We have made minor changes to the following sections of the Forward Commitment underwriting checklists found in Exhibit 1 to reflect changes to construction terminology:

- Section 1.30, TAH Cash Forward Commitment Full Underwriting Checklist
- Section 1.31, TAH Cash Forward Commitment Conversion Underwriting Checklist
- Section 1.32, TAH Bond Credit Enhancement Forward Commitment Full Underwriting Checklist
- Section 1.33, TAH Bond Credit Enhancement Conversion Underwriting Checklist

## Electronic Signatures

Electronic Signatures can provide a convenient and secure way to execute Freddie Mac's forms and other documents. We are announcing that Freddie Mac will accept the Electronic Signatures of:

- Borrowers, Borrower Principals and guarantors (or their respective legal representatives/signatories) on all numbered Guide forms except as noted on the form
- Third parties on all third-party reports submitted in connection with Mortgage underwriting
- Seller/Servicers on Commitments; early rate-lock applications; Index Lock Agreements and all related Amendments, Adjustments/Modifications and Corrections; Servicing approval requests; and all numbered Guide forms (unless otherwise indicated on the form or requested by Freddie Mac)

The Guide provides that the Seller/Servicer agrees to be bound by its own Electronic Signatures. When delivering a document bearing an Electronic Signature from a Borrower, the Seller/Servicer is deemed to represent and warrant that the Seller/Servicer has conducted due diligence on the software and processes involved in creating that Borrower's Electronic Signature, and that the software and processes create a valid, enforceable, and effective Electronic Signature in compliance with the Uniform Electronic Transactions Act of 1999 (UETA) and/or the Electronic Signatures in Global and National Commerce Act of 2000 (E-SIGN).

To reflect these changes, we have revised Sections 2.14(a), 2.14(c) and 2.14(j), and have added Section 2.14(l). We have also revised the electronic signature capability on our Guide Forms in support of these changes.

If you have additional questions, Freddie Mac has prepared a best practices document on this topic that is available on [FreddieMac.com](http://FreddieMac.com).

## New USGS Tool for Determining Elevated Seismic Hazard Regions

We have revised Sections 16.2(b) and 16SBL.2(b) to link to the new tool that the USGS has recently introduced to calculate the horizontal Peak Ground Acceleration (PGA) used in the determination of Elevated Seismic Hazard Regions. To assist Seller/Servicers in using the Unified Hazard Tool, available on the USGS website, we have prepared an example of its use, which can be found under the "Quick Links" heading on the Multifamily Originate and Underwrite page on [FreddieMac.com](http://FreddieMac.com).

Other than the use of the new tool, our requirements for evaluating seismic risk have not changed.

## Insurance Updates

### *Liability Policy Notice of Cancellation Provisions*

As a result of changing insurance market conditions over the past several years, liability insurers have retreated from issuing contractual promises to provide notice of cancellation of liability policies directly to lenders as Additional Insureds. Since notice of cancellation by liability insurers directly to lenders is now rarely available in the marketplace, the Guide will no longer require notice of cancellation by the insurer directly to the lender as Additional Insured. Note that notice of cancellation provisions from the insurer to the Named Insured will still be a requirement for liability policies, and that notice of cancellation provisions from the insurer to the lender will remain a requirement for property insurance policies. This change can be found in Section 31.2(f).

### *Windstorm Coverage Provided by Blanket Insurance*

We are revising the Guide requirement for blanket windstorm/”named storm” coverage to reiterate that the blanket limit for properties located in Tier 1 Windstorm Risk counties must be at least equal to the greater of the following:

- The largest individual Total Insurable Value (TIV) of properties covered by the limit, or
- 40 percent of the aggregate TIV of properties located within the State covered by the blanket limit.

We have revised Sections 31.5(a) and 31.7(c) to reflect these changes.

### Wire instructions

We are making the following changes to our processes for authorizing individuals to provide wire transfer instructions and for confirming of the accuracy of wire instructions provided:

- Freddie Mac now requests that the Seller recertify its authorization documentation annually on the Multifamily Annual Certification Report (Form 16M, Annual Eligibility Certification Report or Form 17M, Multifamily Annual Certification Report Structured Transaction & Tax-Exempt Bond Seller/Service, as applicable) confirming that the authorization documentation on file with Freddie Mac remains in full force and effect and that there are no changes to the individuals authorized to provide wire transfer instructions to Freddie Mac.
- Freddie Mac will now require five Business Days to process authorization documentation submitted by Sellers requesting that we add, change or delete individuals authorized to provide wire transfer instructions.
- Upon receipt of executed authorization documentation, Freddie Mac will contact one or more of the individuals authorized to provide wire transfer instructions to confirm the accuracy of wire instructions provided to Freddie Mac via the Form 483 or company letterhead.

To reflect these changes, we have updated Sections 32.12(a) and 32.12(b), and the Forms 483, Wire Transfer Authorization; 988M, Certificate of Authorized Representative; 989M, Certificate of Corporate Secretary; and 990M, Certificate of Limited Liability Company Secretary/Authorized Representative.

### Preliminary Legal Issues Memorandum

In order to assist the Seller/Service’s legal counsel in preparing the preliminary legal issues memorandum (PLIM) for inclusion in the loan origination underwriting package, we are introducing the Preliminary Legal Issues Memorandum – Checklist Form. This form must be used for loan origination PLIMs prepared on or after the date of this Guide Bulletin. This change can be found in Section 6.4(b).

We are also revising Section 6.4(j) to clarify that the PLIM must include the additional analysis set forth in Section 9.10 if any Borrower Principal or guarantor is an investment fund.

## Public Record Searches for SBL Mortgages

To align with the screening requirements announced in the March 3 Guide Bulletin, we are updating our provisions for public record searches to require litigation searches at the Federal and local level for Borrower Principals, including guarantors. This can be found in Section 18SBL.30.

## Final Delivery Package

We are now requiring the Seller to complete and attach a Multifamily Document Transmittal Form, a new form found on the legal pages of FreddieMac.com, when the Seller submits hardcopy documentation without a Final Delivery Table of Contents. We have revised Sections 32.1(b) and 32.2 in support of this change.

## Delivery of Documents Following Closing of a Transfer of Ownership

We have revised Section 41.6(g) to conform the new Borrower and new guarantor opinion requirements to our comparable requirements at the time of loan origination.

## Requests for Freddie Mac Approval of Commercial Leases

We are updating Sections 43.24(b)-(e) to specify that a commercial lease analysis for an SBL Mortgage must be performed using the Commercial Lease Analysis and Estoppel – SBL and that a PLIM is not generally required for these requests. We also made other minor rewording changes.

## Seller/Servicer Change Notification Requirements

We require Seller/Servicers to request Freddie Mac's written approval at least 45 days before any major change occurs in the Seller/Servicer's ownership or organization. We are clarifying the Guide to state that such changes include a transfer of ownership interest that results in any person or entity directly or indirectly owning a percentage of ownership interests that results in a change of control. Freddie Mac reserves the right to evaluate information related to the Seller/Servicer change and to take any action it deems necessary.

These changes can be found in Section 3.8 and 3.8(a).

## Administrative Updates

We are making several minor updates as follows:

- In Section 6.4(h), we are clarifying that a transactional legal issue arising from a title matter must be listed in the PLIM, but full analysis of the title matter must be included in the Title Exception and Survey Analysis (TESA) meeting the requirements of Chapter 29: Title, Description, Survey and UCC Search.
- We are updating Section 39.3(a) to indicate that when the Borrower and Seller/Servicer request that the Loan Documents on the most senior Mortgage be modified to allow an increase in the Replacement Reserve collection, the Borrower and Seller/Servicer must coordinate their request with the holder of the most senior Mortgage.

- We are revising Sections 17.1(c), 17.3, 17.3(a)-(f), 17.11(c), 17.18(c), 19.2(c) and 22.4 to replace the term adjustable rate Mortgage (ARM) with the term floating rate Mortgage, to align with the floating rate Note.
- We are removing duplicative language from Sections 40.2(a) and 40.7.
- We are updating Section 20.3(m) to remove a reference to a pilot program no longer in effect.
- We are updating the mailing instructions on the Forms 987M and 996M as we now request that these Forms be mailed to the Multifamily Records Center.
- We are making administrative updates to all Guide Forms to accommodate more flexible electronic signing and to fix incorrect formatting of certain data fields. Substantive changes to any Forms have already been detailed in this Cover Letter.