

Bulletin

NUMBER: M2023-3

TO: Freddie Mac Multifamily Sellers and Servicers

June 15, 2023



SUBJECTS

In the June 15, 2023 Guide Bulletin, we are updating the Guide as follows:

Low Income Housing Tax Credit (LIHTC)

- Updating [LIHTC Syndicator and LIHTC Investor due diligence](#) requirements
- Clarifying our [LIHTC Forward Commitment Property Inspection](#) requirements

Borrower due diligence

- Clarifying our [Borrower due diligence requirements for trusts](#)
- Updating our [Borrower and Key Borrower Principal underwriting documentation](#) requirements
- Updating our [Borrower and Key Borrower Principal Certificate](#) forms

Property inspections and lease audits

- Adding requirements for [fraud detection and prevention](#)
- Updating our [HUD Inspection Report](#) requirements

Radon testing and mitigation standards

- Clarifying our [radon inspection and mitigation standards](#)

TAH Bridge Loans

- Including requirements for our expanded [TAH Bridge Loan](#) offerings

Information security

- Enhancing our [information security](#) requirements

Authorization for Automatic Transfer of Funds from a Principal and Interest Custodial Account through the ACH

- Updating our [ACH authorization](#) requirements

Transfers of Ownership – Early Indication Review

- Removing [Early Indication Reviews](#) for Transfers of Ownership

Seller/Servicer Prescreen and Application Processes

- Updating our [Seller/Servicer Prescreen and Application Processes](#) and requirements

Additional Guide updates and housekeeping items

- Clarifying the restrictions on [Non-Residential Lease use](#)
- Updating our [Material Vendor change notification](#) requirements
- Updating our [Chief Servicing Officer Certification form](#) for Mortgages with MHC Tenant Protections
- Clarifying instructions in [Form 1056, Reserves Held in Custodial Accounts](#)
- Notifying Seller/Servicers of our [Workforce Housing Preservation](#) requirements

EFFECTIVE DATES

All revisions announced by this Bulletin are effective immediately unless otherwise noted below.

GUIDE UPDATES SPREADSHEET

For a detailed list of the Guide updates associated with this Bulletin and the topics with which they correspond, access the Guide Updates Spreadsheet for this Bulletin posted at <https://mf.freddiemac.com/lenders/guide/bulletins.html>.

CONCLUSION

More details on these changes are provided on the pages that follow. Guide text additions made in this Bulletin are color-coded in green on AllRegs. If you have any questions about this Bulletin, please call your Freddie Mac representative.

Sincerely,

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Senior Vice President
Multifamily Underwriting and Credit

Erlita Shively
Vice President
Multifamily Counterparty Risk Management



LIHTC

LIHTC Syndicator and LIHTC Investor due diligence

We are updating the Guide to account for LIHTC transaction impacts from the Borrower due diligence updates announced in the April 13, 2023 Bulletin.

We are clarifying that:

- LIHTC Syndicators are Borrower Principals and LIHTC Investors are Key Borrower Principals
- LIHTC Syndicators and LIHTC Investors that are public companies do not have to meet our due diligence requirements

These changes impact multiple sections, forms and the Glossary. Refer to the Guide Updates Spreadsheet for this Bulletin posted at <https://mf.freddiemac.com/lenders/guide/bulletins.html> for details.

LIHTC Forward Commitment Property Inspections

We are updating Section 8.16(b) to clarify that the Seller is only required to obtain three LIHTC rent comparables, if available, for LIHTC Forward Commitment Property Inspections.

Borrower due diligence

We are updating the Guide to reflect additional clarifications to the Borrower due diligence requirements announced in the April 13, 2023 Bulletin and address Seller/Servicer feedback.

Trusts

We are revising the term Key Borrower Principal to provide additional clarification on revocable and irrevocable trusts and on which parties affiliated with trusts will have to meet our due diligence requirements.

We are updating Sections 9.6(a) and (b), 9SBL.6(a), the Glossary and [Form 1116](#) to reflect these changes.

Borrower and Key Borrower Principal underwriting package documentation

We are updating [Exhibit 1.1, Underwriting Checklist](#) and [Exhibit 1.26, Targeted Affordable Housing Cash Mortgage Standard Delivery Full Underwriting & Early Rate-Lock Checklist](#) to require the submission of Borrower and Key Borrower Principal financial statements and Real Estate Schedules [Form 1116](#) at the time of the preliminary underwriting package submission for Early-Rate Lock transactions.

Borrower and Key Borrower Principal Certificates

We are revising Form 1115 and Form 1115SBL to separate the Borrower Certificates and Key Borrower Principal Certificates into separate forms, as follows:

- [Form 1115, Borrower Certificate](#)
- [Form 1115, Key Borrower Principal Certificate](#)
- [Form 1115SBL, Borrower Certificate SBL](#)
- [Form 1115SBL, Key Borrower Principal Certificate SBL](#)

This change impacts multiple sections, forms and the Glossary. Refer to the Guide Updates Spreadsheet for this Bulletin posted at <https://mf.freddiemac.com/lenders/guide/bulletins.html> for details.



Property inspections and lease audits

Fraud detection and prevention

We are adding requirements for the detection and prevention of fraud during property inspections at underwriting, including as follows:

- On the day of the inspection, when a property inspection is delegated to the Seller, and the Borrower or the property manager cannot gain access to units, the Seller may substitute originally noticed units for the inaccessible units in order to fulfill the unit inspection and lease-audit requirements. The Seller must identify the inaccessible units and the substituted units in the inspection form.
- When unit renovations are reported, the Seller/Serviceicer should request a list of such units
- When Freddie Mac delegates the property inspection to the Seller, at full underwriting, at least two photographs of each unit inspected must be provided to confirm status and condition

HUD REAC Inspection Reports

We are updating our Housing Assistance Payments (HAP) contract requirements to provide that Sellers must submit the most recent HUD Inspection Report at underwriting if the current REAC score is less than 80 and the Property is required to undergo an annual HUD inspection. This change allows us to better understand what the property manager/Borrower is doing to remedy any existing property condition issues.

Guide impacts

We are updating Sections 8.15, 8.16(b), 8SBL.15(b), 22.8, 55.2, 55SBL.2 and [Interactive Conventional and TAH Cash Underwriting Checklist](#) and [SBL Dynamic Underwriting Checklist](#) to reflect these property inspection and lease audit changes. Additionally, we have streamlined Section 22.8 to refer to Section 8.15 and otherwise provide only additional property inspection requirements for Borrower-Owned Homes.

Radon testing and mitigation standards

In response to industry feedback, we are further clarifying our radon testing and mitigation standards in Section 61.14(d) and (e) and [Exhibit 11, Radon Testing and Mitigation Standards](#).

TAH Bridge Loans

As recently [announced](#), we are expanding the TAH Bridge program to include Bridge to Syndication Mortgages and Non-LIHTC Bridge Mortgages. We are accordingly updating Sections 19.2(g), 19A.1(b) and the Glossary to incorporate the requirements for this expanded program.

Information security

Effective October 15, 2023

We are enhancing our information security requirements in Section 2.26 to be more consistent with industry standards (including those from the [National Institute of Standards and Technology \(NIST\)](#) and [Federal Financial Institutions Examination Council \(FFIEC\)](#)). These updates include the following:

- Human resources security



- Removable media policy, including a data loss prevention/transmission protection mechanism and adequate and up-to-date data loss prevention (DLP) software
- Network security, including firewalls and restriction of ports
- Mobile computing policy, including approved and prohibited applications
- Vulnerability management, including employing a qualified and independent third party to conduct penetration testing on system or system components at least annually
- Auditing, logging and monitoring of activities and action within information systems
- Independent security assessment of the control environment performed at least annually
- Software and application development life cycle (SDLC) process for applications or software that store access, process or transmit Freddie Mac information
- Treatment of sensitive data and data encryption
- Incident management policy
- Cloud computing policy

We are also updating Section 2.26(c) to require that Seller/Serviceers:

- Email Freddie Mac at Information_Security@freddiemac.com and MF_Data_Security_and_Privacy@freddiemac.com for Security Incident notifications
- Comply in a timely manner with applicable laws concerning notification requirements, giving Freddie Mac the opportunity to first review and comment on any notification that in any way refers to or identifies Freddie Mac

We are updating Sections 2.14(e), 2.20 and 2.26 to reflect these changes. Additionally, we are creating the [Information Security Best Practices](#) manual to assist Seller/Serviceers and its vendors in understanding and following our information security requirements.

Authorization for Automatic Transfer of Funds from a Principal and Interest Custodial Account through the ACH

We are updating the Guide to require that Serviceers provide ACH wire instructions for remittances for principal and interest, curtailments, payoffs (including prepayment premiums) and fees via the new [Form 1064, Authorization for Automatic Transfer of Funds from a Principal and Interest Custodial Account Through the ACH](#).

When submitting a new or modified [Form 1057, Letter Agreement for Serviceer's Principal and Interest or P & I Disbursement Clearing Custodial Account](#), or [Form 1059, Letter Agreement for Principal and Interest or P & I Disbursement Clearing Custodial Account](#), a [Form 1064](#) should also be submitted and vice versa.

We are updating Sections 52.6(a) and (b), 52.10, 53.7(g), [Form 1057](#), [Form 1059](#), and adding the new [Form 1064](#) to reflect this change.

Transfers of Ownership – Early Indication Review

As recently [announced](#), we are removing our Early Indication Review requirements. We no longer require the issuance of Early Indication Letters in connection with assumptions, Guarantor transfers, controlling interest transfers and other transfers.



We are updating Section 41.4 (a), (b) and (c) to reflect these changes.

Seller/Servicer Prescreen and Application Processes

We are updating our Seller/Servicer Prescreen and Application Processes and requirements, including:

- Reducing the Prescreen Review Fee from \$50,000 to \$5,000
- No longer requiring Conventional Seller/Servicers to obtain approval for their individual branch production offices. However, should Freddie Mac, in its sole discretion, determine that a branch production office is not qualified to submit loans to Freddie Mac, it may result in Freddie Mac rejecting submissions from the office, reducing the geographic area of the Conventional Seller/ Servicer, and/or placing the Conventional Seller/ Servicer on probation.

Freddie Mac will evaluate the Seller/ Servicer applicant following the Prescreen Process and Application Process detailed in the updated [Optigo Lender Application Roadmap](#).

We are updating our Optigo Lender Eligibility [web page](#) and Sections 3.1(b), (d) and 3.2 to reflect these changes.

Additional Guide updates and housekeeping items

Restricted Non-Residential Lease use

Corresponding with recent Loan Agreement updates, we are updating Section 43.24(e) and the Glossary to clarify the restrictions on Non-Residential Lease use by providing examples of restricted uses and defining Restricted Non-Residential Use and Prohibited Substances.

Material Vendor change notifications

To streamline the process, we are updating Section 3.9 to require all Seller/Servicers to update the Vendor Inventory, as necessary, directly in the Multifamily Eligibility System. Seller/Servicers do not need to email Freddie Mac when updates are made to the inventory. As a reminder, Seller/Servicers must update the Vendor Inventory within 10 Business Days of the date of onboarding or termination of a Material Vendor.

CSO form for Mortgages with MHC Tenant Protections

We are updating the [Chief Servicing Officer Certification form](#) for CSOs to complete for Mortgages with MHC Tenant Protections Rider to the Loan Agreement to conform with the applicable language in the [Chief Servicing Officer Certification \(Required Rent Restrictions – Compliance\) form](#) announced in the April 13, 2023 Bulletin.

Form 1056, Reserves Held in Custodial Accounts

We are updating Form 1056 to clarify the instructions for reporting tax abatements as follows:

- For full tax abatements, enter “N/A” in the Initial and Monthly Deposit fields
- For partial tax abatements, enter the amount in the Initial and Monthly Deposit fields
- For supplemental mortgages, enter the amount collected in the Initial Deposit under the Escrow Reserves

The Monthly Deposit set forth under the Escrow Reserves should always match the amount of the monthly deposit indicated in Exhibit B to the Letter of Commitment for the Mortgage.



Workforce Housing Preservation

As recently [announced](#), we are expanding the Properties eligible for Rent Preservation to include Conventional loans through our new [Workforce Housing Preservation](#) option. We will be updating the Guide to reflect Workforce Housing Preservation requirements in an upcoming Bulletin. In the meantime, if you have any questions about Workforce Housing Preservation, please reach out to your applicable Freddie Mac contacts.