



# Bulletin

NUMBER: M2019-3

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TO: Freddie Mac Multifamily Sellers and Servicers

June 27, 2019

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## SUBJECTS

In the June 27, 2019 Guide Bulletin, we are:

- Incorporating the Optigo<sup>SM</sup> brand into the Guide
- Requiring all Seller/Servicers with whom Freddie Mac does business to practice the principles of equal opportunity and non-discrimination in all our business activities
- Requiring notification if a Seller/Servicer adds, deletes or changes a “Doing Business As” (DBA) name
- Enhancing our property inspection and due diligence requirements for Small Balance Loan (SBL) Mortgages
- Requiring submission of the *SBL Seller Certification Form* as part of the Small Balance Loan (SBL) full underwriting package
- Simplifying the Form 1056, *Reserves Held in Custodial Accounts*
- Changing the timeline for the completion of certain Priority Repairs
- Prohibiting the execution of an Assignment of Management Agreement and Subordination of Management Fees for SBL Mortgages
- Clarifying our requirements for the delivery of documentation necessary for conditionally permitted Transfers of Ownership
- Adding requirements for implementing and administering Manufactured Housing Community (MHC) Mortgages with MHC Tenant Protections
- Clarifying that exclusions from coverage under the ALTA 9.6-06 are not permissible without prior approval from Freddie Mac Legal and, for non-SBL Mortgages, modifying our requirements for the form and submission of Title Exception and Survey Analyses (TESAs)
- Revising our requirements with respect to evaluating Blanket All-Risk and Terrorism Insurance Limits
- Modifying our requirements to include a page limit for Targeted Affordable Housing Express (TAHX) appraisal reports
- Changing the due dates for submitting progress reports for Value-Add Mortgages
- Clarifying our environmental assessment protocol for drinking water quality
- Making minor changes to our requirements regarding site visits for Forward Commitments on new construction
- Applying minor housekeeping changes to Forms 1108, *Physical Risk Report* and 989, *Certificate of Corporate Secretary (Certificate of Incumbency)*, and to Sections 36.2 and 61.17

## Effective dates

The changes regarding submission of Annual and Quarterly Financial assessments for Value-Add Mortgages on new Form 1028, *Value-Add Monitoring Form*, will be effective September 30<sup>th</sup>, 2019. The Form 1108, *Physical Risk Report* will be published on FreddieMac.com by July 31<sup>st</sup> and should be used for any Physical Risk Reports engaged on or after August 1, 2019. The 75-page limit for appraisals submitted for the Targeted Affordable Housing Express program goes into effect on August 1, 2019. All remaining 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,

B. Stephen Lansbury  
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Multifamily Underwriting and Credit

Leanne Spies  
Senior Vice President  
Multifamily Asset Management and Operations

## Incorporating the Optigo<sup>SM</sup> brand into the Guide

### *A New Name, a Bright Future*

As the leader in Multifamily finance, we are excited to announce that we are revising the Guide to reflect our new brand name, Optigo<sup>SM</sup>. The new name signifies that we are focused on innovating the future of housing finance and illustrates our drive to create optimal solutions with consistent risk discipline. We are still the Freddie Mac Multifamily business, but we will now use the Optigo name to distinguish our Freddie Mac Multifamily network.

This change is introduced in Sections 3.1, 3.1(a)-(c), and 3.2, and in updates to Glossary definitions for Optigo Lender, Seller, Servicer, and related defined terms. Additional changes reflecting the Optigo Lender network can be found in Sections 2.7(b), 2.11, 4.3(c), 4.5(c), 4.6(b), 4.6(d), 4.7(b), 4.7(d), 17.1(a), 18SBL.1(a), 20.3(l), 22.1(a), 22.11, 36.2, 43.5(e), 43.13(a), 55.1(a), and Exhibit 2, *Origination Guidelines for Targeted Affordable Mortgages*.

Finally, we have moved the description of Seller/Servicer number usage from the Glossary to Sections 3.7(a)-(b), where it will be easier to find.

### *Co-branding/Co-marketing*

As part of our rebranding, we are updating the language concerning requests for co-marketing with the Optigo name, logo, graphic and offerings, as well as requests to link to online Freddie Mac resources. These changes are found in Sections 2.10(a)-(e).

### *Capital Markets offerings*

Please note, we will not use Optigo for our Capital Markets offerings, which continue to be known by their K Deal and other names.

## Non-Discrimination

We are updating Section 3.17 to state that Freddie Mac fully supports the principles of equal opportunity and non-discrimination in all our business activities. Consistent with this view and also consistent with the Minority and Women Inclusion Amendments Final Rule issued by the FHFA, we are updating the Guide to require all Seller/Servicers with whom Freddie Mac does business to practice these principles as well. Seller/Servicers must not discriminate on the basis of race, color, religion, sex, age, marital status, disability, veteran status, genetic information (including family medical history), pregnancy, parental status, familial status, national origin, ethnicity, sexual orientation, gender identity or other characteristics protected by law.

## Notification of certain organizational changes

We are now requiring notification, via Form 1107M, *Multifamily Seller/Servicer Change Notification*, whenever a Seller/Servicer adds, deletes or changes a “Doing Business As” (DBA) name. We have revised Section 3.8(b) to indicate that we must receive such notification at least 5 business days prior to the change. We have also revised Form 1107M, *Multifamily Seller/Servicer Change Notification* to reflect this requirement.

## SBL Due Diligence

We are revising Section 8SBL.15(b) to reflect enhanced requirements regarding property inspections and due diligence. We now require that units to be inspected are to be selected at random on the day of the site inspection and that Borrowers provide adequate notification to tenants about pending unit inspections. For SBL Properties in Standard, Small, or Very Small Markets we have also increased the minimum number of units that must be inspected.

Additional documentation to be provided for the inspection includes a sample residential lease, a lease audit of at least 50 percent of the units that are inspected, and an indication on the *Property Inspection and Lease Audit form* (available on FreddieMac.com) of the number of units that were notified of the inspection.

Section 55SBL.2 and Exhibit 1, Section 1.2, *SBL Underwriting* are also being updated to reflect this change.

## SBL Seller Fee Certification Form

SBL Sellers must now submit the *Seller Fee Certification Form – SBL* to provide Freddie Mac with information about broker and correspondent fees paid by the Seller in connection with an SBL Mortgage. The Form must be submitted as part of the full underwriting package, via the Document Management System (DMS). The Form can be found on FreddieMac.com. Section 55SBL.2 and Exhibit 1, Section 1.2, *SBL Underwriting Checklist* are being updated to reflect this change.

## Simplifying the Form 1056, Reserves Held in Custodial Accounts

We are revising Form 1056, *Reserves Held in Custodial Accounts* to make it easier to add and modify the required Form data. The Form should be delivered for all Mortgages with the Final Delivery Package.

## Completion of Priority Repairs

For non-SBL Mortgages, we are changing the timeline for the completion of certain Priority Repairs. While we still expect that all Priority Repairs will be addressed as soon as possible, Priority Repairs other than those identified as the most urgent PR-90 Repairs must now be completed within 365 days rather than within 180 days. Repairs classified as PR-90 repairs must still be completed within 90 days after the Origination Date. Sections 8.17, 39.4(b) and 62.3(b) are being updated in support of this change.

## Assignment of Management Agreement and Subordination of Management Fees

We are revising Sections 6SBL.13(b), 6SBL.14(b), 8SBL.13 and 41SBL.6(g) to indicate that execution of an Assignment of Management Agreement and Subordination of Management Fees is not permitted for SBL Mortgages.

### Conditionally Permitted Transfers of Ownership document delivery

We are updating Sections 41.3(c) and 41SBL.3(c) to clarify that we require delivery of transfer documentation no later than five Business Days after a conditionally permitted Transfer of Ownership occurs.

### Manufactured Housing Community (MHC) Mortgages with MHC Tenant Protections

Freddie Mac will now offer special incentives on MHC Mortgages with MHC Tenant Protections. To qualify for these incentives, MHC Borrowers must include eight MHC Tenant Protections in all existing and future homeowner leases. Revisions to Sections 22.1(a), 22.1(b), 22.2(p) and 22.12 are being made in support of this change and Exhibit 1, Section 1.1, the *Conventional Underwriting Checklist* and Section 55.2 are being updated with the underwriting documentation required for these Mortgages.

Additional Servicing requirements are also necessary for these Mortgages and include ensuring the annual submission of the “*Borrower's Certificate - MHC Tenant Protections*” and an annual certification by the Servicer’s Chief Servicing Officer (CSO) stating that the Servicer has validated Borrower compliance with the MHC Tenant Protections. Section 40.16 has been updated in support of this change. The Borrower Certification will be made available to Seller/Servicers and Borrowers as an Exhibit to the Rider to Multifamily Loan and Security Agreement – Manufactured Housing Community – MHC Tenant Protections. The form of which is available on FreddieMac.com.

For additional information regarding these incentives, contact the *Applicable Freddie Mac Multifamily Regional Office* that serves the region where the Property is located.

### Survey and UCC Search and form of Title Exception and Survey Analysis (TESA)

Sections 29.1(g) and 29SBL.1(g) have been revised to clarify that exclusions from coverage under the ALTA 9.6-06 are not permissible without prior approval from Freddie Mac Legal. We have also updated the list of required title endorsements in these Sections.

For non-SBL Mortgages, we are modifying our requirements for the form and submission of Title Exception and Survey Analyses (TESAs). TESAs must be submitted to Freddie Mac Legal no less than two business days prior to anticipated date of origination, and Seller/Servicers should review our revised requirements regarding permissible title exceptions and necessary endorsements. Sections 29.2(b), 29.2(d), and 29.2(e) have been updated to reflect these changes.

### Insurance requirements

We are revising our requirements with respect to evaluating whether Blanket All-Risk and Terrorism Insurance Limits provide adequate coverage for concentrations of insurable value. Limits must now be the greater of

- The largest individual total insured value (TIV) of properties covered by the Limit, or
- The aggregate TIV of the Property and nearby properties covered by the same blanket limit.

Sections 31.5(c) and 31.13 have been revised to detail these changes.

Section 31.3 has also been modified to reflect the more localized approach to evaluating a Borrower's use of Blanket or Master insurance policies. Seller/Servicers are still required to obtain sufficient information to allow evaluation of Blanket Insurance Limits, and to retain documentation of their analysis in the associated loan file.

#### Appraisal Requirements for Targeted Affordable Housing Express (TAHX) Mortgages

We are modifying Section 60.11 to include a page limit for TAHX appraisal reports. Effective with underwriting packages delivered to Freddie Mac on or after August 1, 2019, appraisals submitted to Freddie Mac for loan origination in the TAHX program with an appraisal effective date of value on or after August 1, 2019 must be 75 pages or less. Addenda to these appraisal reports are not included in the 75-page count. We have also updated and renamed Form, 6011, *Waiver of Page Limit for SBL and TAHX Appraisals*, in support of these changes.

#### Reporting on Value-Add Mortgages

We are changing the due dates for submitting progress reports for Value-Add Mortgages, and the method by which these reports are submitted. Currently, progress reports are submitted concurrently with the AIE and QIE submissions. Beginning in Q3 (the quarter ending September 30<sup>th</sup>, 2019) progress reports will be due within a month after the close of the quarter and must be submitted via the Property Reporting System (PRS) using new Form 1028, *Value Add Monitoring Form*, which is being developed for this purpose. Sections 40.16(b) and 40.16(c) have been revised to reflect this change. (Please note, the timeline for I&E reporting will not change).

When onboarding a loan, Freddie Mac will create a customized version of the Form 1028 for each Property with a Value-Add Mortgage. The customized Forms will be made available to Servicers via a single Loan Item Tracking (LIT) entry in PRS. We anticipate that the Forms to be used for Q3 2019 reporting will be made available to Servicers on or about September 15<sup>th</sup> of 2019.

The Servicer must complete the customized version of the Form and submit it to Freddie Mac in its original Excel format, together with the quarterly certifications, via PRS. In support of this change, the Value-Add option will be removed from the Multifamily Unstabilized Monitoring Form.

#### Environmental assessment protocol for drinking water quality

We are revising Section 61.10(b) to clarify that, for Properties not serviced by a municipal water system, the environmental consultant must determine that the drinking water complies with applicable federal, State, and local requirements, which includes reviewing test results that are no more than 180 days old at the time of the site visit. If the consultant cannot determine compliance of the water system, then the environmental consultant must obtain and analyze drinking water samples for the Property that include a first draw sample. Form 1103, *Environmental Site Assessment*, has been updated to include questions specific to water quality testing for Properties serviced by private wells.

### Site visits for new construction forwards

We are making minor changes to Section 63.3(a), regarding the site visit requirements for a new construction forward.

### Housekeeping Changes

- Since we removed our requirement that a Servicer or duly authorized Servicing Agent be a rated primary Servicer, we have eliminated the requirement from Section 36.2.
- We have updated Section 61.17 to align with the section names of the Form 1103, *Environmental Site Assessment*
- We are updating Form 989, *Certificate of Corporate Secretary (Certificate of Incumbency)*, to correct a typographical error in the Form number
- Form 1108, Physical Risk Report

Section III of Form 1108, *Physical Risk Report* will be updated by July 31, 2019 to incorporate the following changes:

- Adding questions related to Manufactured Housing Community (MHC) Mortgages to align with the questions currently on Form 1105, *Property Condition Assessment*
- Adding questions related to water quality testing for communities with private wells

The updated Form, 1108 (version 6.0) will be posted on FreddieMac.com and must be used for any Physical Risk Reports for which an inspector is engaged on or after August 1, 2019.