

Bulletin

NUMBER: M2013-3

TO: Freddie Mac Multifamily Sellers and Servicers

June 28, 2013

SUBJECTS

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

- Adding a Servicing Standard reference for the servicing of securitized Mortgages
- Modifying circumstances under which Freddie Mac may take disciplinary action against a Seller/Service for a failure of a Seller/Service to meet annual production goals assigned by Freddie Mac
- Updating our transaction-related requirements for the Servicing of Mortgages, including making modifications to a Service's responsibilities following a casualty loss and revising Forms 1140 and 1140-DR
- Updating our requirements with respect to the Freddie Mac Exclusionary List
- Revising our requirements with respect to appraiser certifications
- Standardizing the reliance language for the Appraisal, the environmental report, the property condition report, the Level 1 Seismic Risk Assessment (SRA), and certain construction reports for Forward Commitments
- Requiring additional documentation as part of the underwriting package for Properties where problematic materials, equipment or systems have been detected
- Making miscellaneous revisions clarifying our requirements regarding
 - Aluminum wiring
 - Our itemized survey and/or plat exceptions
 - Compliance with our deadlines regarding the Seller/Service's cooperation with us to prevent and investigate fraud

Effective dates

The change to our requirements for Properties with problematic materials, equipment or systems goes into effect for all applicable underwriting packages submitted on or after July 15, 2013. 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 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
Senior Vice President
Multifamily

Servicing Standard Reference for Securitized Mortgage Servicing

We have added Section 1.11 to guide servicers of securitized Mortgages in determining the appropriate standard for the servicing of Mortgages if the applicable Pooling and Servicing Agreement (PSA) refers to the *Freddie Mac Multifamily Seller/Servicer Guide*.

Seller/Servicer's Failure to Meet Annual Production Goals

We have changed our requirements regarding Seller/Servicer production goals. We have revised Section 4.2 to include the failure of a Seller/Servicer to meet annual production goals for a required volume of Mortgages as a reason for probation, suspension, or termination without cause. Section 4.3(d) has also been modified to give Freddie Mac the right to transfer Servicing if a Seller/Servicer fails to meet its annual production goals.

During the notice period following Freddie Mac's notice of termination of Servicing for failure to meet annual production goals, the Servicer may arrange to transfer the terminated Servicing to one or more Program Plus Seller/Servicers in good standing. The transfer of Servicing must be made in accordance with the terms and provisions of Chapter 42, but we have removed our provisions requiring that the transferee:

- Be approved to service the particular portfolio being transferred
- Have a geographic presence and expertise in the same geographic area(s) where the Property securing the affected Mortgage is located

Removal of these requirements allows the terminated Seller/Servicer to market our portfolio to any approved Program Plus Seller/Servicer in good standing during the notice period.

Seller/Servicers may not appeal Freddie Mac's decisions regarding disciplinary action taken for a failure to meet annual production goals.

We have modified Sections 4.2, 4.6, 4.7, 4.3 and 4.4 in support of these changes and advise Seller/Servicers to review the changes to Chapters 4 and 42 in their entirety.

Revisions to Transaction-related Requirements for the Servicing of Mortgages

We have made the following revisions to our Servicing requirements:

- We have revised Section 4.3.1 to require the Servicer to send corrected data, via email, to Freddie Mac *Multifamily Asset Management, Servicer and Data Management* if its required view of General Loan Information (GLI) identifies any inaccuracies. We have updated the Guide Directory in support of this change.
- We have updated our Notice and Form 1140 requirements regarding casualty losses and natural disaster losses. Our revised procedures require the submission of Parts I and II of Form 1140 by all Servicers after learning that a loss or damage has occurred. Part I, Hazard Loss Notification and Plan – Overview must be submitted within seven Business Days after learning that a loss or damage has occurred, and Part II, Hazard Loss Notification and Plan – Submission Details within 30 Days after learning that a loss or damage has occurred.

Furthermore, Servicers must now obtain our approval of their recommendations for monitoring the repair and restoration of the Property or application of funds to the unpaid principal balance (UPB) if:

- The Mortgage is in default.
- The amount of loss or damage exceeds, or is expected to exceed, the lesser of 15 percent of the UPB or \$3 million.
- The Mortgage has a Risk Rating greater than six.
- The insurance coverage is insufficient to cover the loss to the Property or loss of rents/business income.

If any of the conditions listed above exists at or following the date of the loss, we prohibit a Servicer from disbursing insurance proceeds to the Borrower until we have given the Servicer our written approval regarding the handling of the loss or damage. Upon our approval of the plan, the Servicer must submit Form 1140-DR, Multifamily Hazard Loss Disbursement Request Form, for each draw request.

If none of the conditions listed above exists at or following the date of the loss, the Servicer directs the resolution of the loss and the Servicer's submission of Form 1140, Part II to Freddie Mac will be for notification only.

We have revised Section 43.8 and Forms 1140 and 1140-DR in support of these changes.

Use of the Freddie Mac Exclusionary List

We have updated our requirements for the Freddie Mac Exclusionary List as follows:

- Specifying that persons or entities on the Exclusionary List are prohibited from doing business with Freddie Mac, either directly or indirectly
- Specifying that the Exclusionary List is updated by Freddie Mac at least monthly
- Adding theft or misappropriation of funds as an example of grounds for placement on the Exclusionary List
- Adding that a person or entity may be added to the Exclusionary List if designated as a Suspended Counterparty by the Federal Housing Finance Agency (FHFA) as part of FHFA's Suspended Counterparty Program

Freddie Mac's process for placement on the Exclusionary List outlined in the Guide does not apply to Suspended Counterparties; such party's rights are governed by FHFA's Suspended Counterparty Program.

To accommodate these changes, we have revised Sections 2.18(a), 2.18(b), 2.18(d), 2.18(f), and 2.18(h).

Appraiser Certification

We have revised our requirements for the appraisers who are signing the Appraisal to:

- Eliminate references to a "supervising appraiser", and
- Require anyone signing the Appraisal to comply with the requirements of Chapter 12, inspect the Property and accept full responsibility for the contents of the Appraisal.

These changes can be found in Section 12.5.

Standardization of Reliance Language for Third-Party Reports

We have revised the reliance language for Appraisals, environmental reports, property condition reports, Level 1 SRAs and certain construction reports for Forward Commitments to:

- Standardize the reliance language
- Require that the reliance language be added to third-party reports for non-CME Mortgages
- Expand the list of parties that may rely on the third-party report

These changes can be found in Sections 12.12, 13.2(b), 14.3(c), 15.4(b), 15.7(c), 15.8(c) and 16.5.

Problematic Materials, Equipment and Systems

We have revised our requirements for Properties where problematic materials, equipment or systems have been detected, such as aluminum wiring, fire-retardant-treated plywood, problem drywall or other building components that historically have performed poorly or have been subject to recalls or class action lawsuits. In such instances, the Seller/Servicer must

- Obtain certification from the appraiser that the problematic materials, equipment and systems were considered in the evaluation of the Property
- Provide evidence that there is no exclusion in the hazard insurance policy for damage caused by the problematic materials, equipment and systems

If required, the additional documentation must be included in the full underwriting package for the standard delivery and the early rate-lock delivery options, and in the conversion underwriting package for Forward Commitments.

We have revised Section 14.2 to reflect this change. In addition, we have revised the following underwriting checklists in Exhibit 1 to include the new requirement:

- Section 1.1: Conventional Checklist
- Section 1.26: Targeted Affordable Housing Cash Mortgage Standard Delivery Full Underwriting Checklist
- Section 1.29: Targeted Affordable Housing Bond Credit Enhancement Mortgage Full Underwriting Checklist
- Section 1.31: Targeted Affordable Housing Cash Mortgage Conversion Underwriting Checklist
- Section 1.33: Targeted Affordable Housing Bond Credit Enhancement Mortgage Conversion Underwriting Checklist

The updated checklists can be found on AllRegs and on FreddieMac.com.

Miscellaneous

Aluminum Wiring

We have clarified the requirements for Properties where aluminum wiring is present to state that all electrical devices must have code-compliant connections that are rated to accept aluminum wiring; otherwise, code-compliant repairs must be made before the Origination Date. This revision can be found in Section 14.5(c).

Itemized survey and/or plat exceptions

We have revised Section 29.2(e)(17) to clarify that non-structural items that do not violate any zoning laws or regulations to which the Property may be subject (e.g., fences, boundary walls, signs that lie within the building setback lines) may qualify for the safe-harbor category of Section 29.2(e)(17) provided they meet all of the requirements of that Section.

Cooperation to prevent and detect fraud

We have modified Section 7.3, which describes a Seller/Service's duty to cooperate with Freddie Mac to prevent and investigate fraud, to require that Seller/Service's comply with any deadlines specified by Freddie Mac for providing information, documentation, records, access to individuals or any other requested assistance.