



Bulletin

NUMBER: M2017-5

TO: Freddie Mac Multifamily Sellers and Servicers

June 29, 2017

SUBJECTS

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

- Rewriting Chapter 46SBL, SBL Collateral, Loss, Repurchase, Servicing and Securities Purchase
- Revising the following requirements for Small Balance Loan (SBL) Mortgages:
 - Property fundamentals
 - Borrower fundamentals
 - Operations and maintenance (O&M) programs
- Updating the public record searches chart for SBL Mortgages in Chapter 18SBL to include the searches currently required for property management companies pursuant to Chapter 2
- Introducing Chapter 55SBL, which contains a description of the documents required in SBL underwriting packages and required for Transfers of Ownership of SBL Mortgages
- Revising the seismic risk requirements for SBL and Manufactured Housing Community (MHC) Mortgages
- Revising our requirements for the Mortgage term, eligible Properties, and property description and evaluation for MHC Mortgages
- Changing the process for the good faith deposit for the early rate-lock delivery option
- Adding to the Guide our requirements for Crowdfunding
- Revising requirements for post-purchase reporting:
 - Announcing upcoming changes requiring the use of CREFC reporting formats
 - Updating the requirements for the submission of the Mid-Year Rent Schedule
 - Adding references to the supplemental forms that Servicers must use for reporting on Co-ops and Bond Credit Enhancement Mortgages
 - Updating the requirements for reviewing and verifying General Loan Information (GLI)
 - Changing the name of the Unstabilized Monitoring Form
- Incorporating Servicing requirements for Credit Facilities (revolving lines of credit)
- Including a Seller acknowledgement concerning disclosure that Freddie Mac may request if a Seller/Servicer sells or services Mortgages that are part of a Securitization
- Updating the environmental assessment protocol for drinking water quality
- Adding an additional stipulation for Shared Access Agreements and Shared Use Agreements
- Updating Freddie Mac's requirements in connection with filing IRS Form 1099-A and 1099-C, and Freddie Mac's Form 1065M, Report of IRS Form 1099-A and Form 1099-C Filing
- Including Freddie Mac's requirements for an eligible Low Income Housing Tax Credit (LIHTC) syndicator in the Guide and eliminating references to the LIHTC Syndicator Request Form
- Updating Chapter 55 to reflect its use in preparing documentation required for a Transfer of Ownership

Effective dates

All revisions announced by this Bulletin are effective immediately, with the exception of the process changes for the good faith deposit, which are effective for early rate-lock applications that Freddie Mac provides to the Seller on or after July 1, 2017.

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 text of Chapters 46SBL and 55SBL. Since Chapter 46SBL has been completely rewritten, and Chapter 55SBL is new, the text for these chapters will appear in black. If you have any questions about this Bulletin, please call your Freddie Mac representative.

Sincerely,

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Rewrite of Chapter 46SBL, SBL Collateral, Loss, Repurchase, Servicing and Securities Purchase

We are rewriting Chapter 46SBL to align its provisions with current business practices. Changes can be found throughout Chapter 46SBL; we recommend that the SBL Seller/Servicer read the rewritten chapter to obtain an understanding of the requirements. We are also revising Sections 11.2(d), 11.2(e), 11.2(g), and 11.2(h) to reflect changes to requirements for a letter of credit accepted by Freddie Mac in connection with an SBL Mortgage.

Additional Changes to Requirements for SBL Mortgages

We are making the following changes to requirements for SBL Mortgages to align with current business practices and to incorporate recent policy changes.

Changes to SBL Property Fundamentals

We are including a table of the minimum stabilized physical occupancy requirements for Top Market, Standard Market, Small Market and Very Small Market Properties.

We are adding requirements for certificates of occupancy. The Seller must confirm that all certificates of occupancy required for the use, operation and occupancy of the Property have been issued and are in effect, or if certificates of occupancy are not available, that the absence of any certificate of occupancy is not a violation of law and will not give rise to any enforcement action affecting the Property. If the Seller cannot confirm the requirements regarding the certificates of occupancy, Freddie Mac will consider the Mortgage for purchase only if certain conditions are met.

We are revising the Guide to state that Freddie Mac will consider purchasing an SBL Mortgage secured by a Property with its buildings located on non-contiguous parcels (scattered sites) if the requested loan amount is at least \$2,000,000 and the Property meets the additional requirements currently in effect. If the non-contiguous parcels do not have the same owner, then all the owners must be entities and must be named as Borrowers, and the ultimate ownership of all Borrower entities must be identical both in percentage and control.

We are adding a definition and requirements for SBL Properties with Owner-Occupied Units. The SBL Mortgage must meet minimum DCR and other requirements.

We are specifying additional characteristics that would make an SBL Mortgage ineligible for sale to Freddie Mac. These include Properties receiving rent subsidies; Properties encumbered by income restrictions, rent restrictions, or LIHTC land use restrictions; Properties benefiting from tax exempt bond interest reduction payments or Historic Tax Credits requiring a master lease structure; and Properties with certain tenant characteristics.

We are updating the requirements for property inspections to require the Borrower to provide the Seller with a rent roll dated within the week prior to the site inspection, and the Seller to provide this rent roll to Freddie Mac prior to its site inspection. For a Property in a Very Small Market, the Borrower must provide notification to all tenants that a site inspection is pending, and on the day of the inspection, either Freddie Mac or the Seller will select at random the units for inspection.

These changes can be found in Sections 8SBL.4, 8SBL.5, 8SBL.6(f), 8SBL.8, 8SBL.14, and 8SBL.15.

Changes to SBL Borrower Fundamentals

We are making the following changes to the general Borrower requirements for SBL Mortgages:

- Land trusts, business trusts (including Delaware Statutory Trusts), pension or retirement funds or accounts, and not-for-profit corporations will no longer be eligible SBL Borrowers.
- New York cooperative housing corporations are generally acceptable as SBL Borrowers, provided they are Single Asset Entities (SAEs), and the Seller can meet additional requirements found in Sections 5.10 and 8SBL.18.

For foreign Borrower Principals that are approved by Freddie Mac as guarantors, we are clarifying that the guarantor must appoint an unaffiliated agent in the United States, such as an attorney or company whose business is to accept service of process for its customers.

We are adding requirements for Borrower and Borrower Principal due diligence when the Property is located in a Very Small Market. If the Borrower is an individual or is wholly owned by the guarantor, or any Borrower Principal in the transaction does not have an established relationship with Freddie Mac or the SBL Seller/Servicer, then the SBL Seller/Servicer must include in the underwriting package one Seller/Servicer verified bank reference for all Borrowers and Borrower Principals, and Property-level bank statements for the last three months.

These changes can be found in Sections 9SBL.2(a), 9SBL.2(e), 9SBL.6(b) and 9SBL.14.

O&M Programs

For SBL Mortgages, we are removing the requirement that Freddie Mac must approve any O&M program before the Origination Date. This change can be found in Section 13.4(c).

Updates to Public Searches for SBL Mortgages

We are revising 18SBL.30 to reflect the requirement that searches of the Freddie Mac Exclusionary List, the FHFA SCP List, the OFAC Specially Designated Nationals and Blocked Persons (“SDN”) List and the OFAC Consolidated Sanctions List are required for property management companies, as currently required in Sections 2.18, 2.23 and 2.24.

New Chapter 55SBL and Preparation of the SBL Underwriting Checklist

We are adding to the Guide Chapter 55SBL, SBL Documentation and Deliveries. SBL Sellers will now be able to consult this chapter to obtain the instructions for preparing the documentation required by the SBL underwriting checklist and documentation required for a Transfer of Ownership. References to SBL underwriting requirements have been removed from Chapter 55, Documentation and Deliveries. We have also updated references to Chapter 55SBL in Sections 8SBL.11(b), 8SBL.19(c), 18SBL.4, 18SBL.11, 18SBL.16, 18SBL.30, 31.9(b), and 41SBL.4(d).

Updated Requirements for Seismic Risk Assessments for SBL and MHC Properties

Seismic Requirements for SBL Properties

For SBL Properties, we are adding the following to the existing list of risk factors for Properties located in an Elevated Seismic Hazard Region:

- Any Property that has a construction date prior to 1980 as reported in the assessor's record
- Any Property required to undergo a seismic retrofit by any local or State authority

This change can be found in Section 16SBL.2(c). We have also revised Form 1104, SBL Physical Risk Report, to update the list of risk factors.

Seismic Requirements for MHC Properties

We are adding to Chapter 22 seismic risk factors that apply only to an MHC Property in an Elevated Seismic Hazard Region, replacing the existing requirements in Section 16.2(c). If an MHC Property has permanent residential structures, the following risk factors must be evaluated:

- Residential units located above ground floor, commercial space, retail space, or tuck-under parking, and any permanent residential structure that has either a construction date prior to 1980 as reported in the assessor's record, or a certificate of occupancy issued prior to 1980
- Any wood-framed building built prior to 1950
- Any building with unreinforced masonry construction, regardless of any retrofit
- Any Property that was required to undergo a seismic retrofit by any local or State authority

If any one of the risk factors listed above are present at the Property, or if the Seller/Service cannot conclusively determine that none of the risk factors are present at the Property, a Level 1 Seismic Risk Assessment (SRA) is required. A Level 0 SRA is not required for any MHC Property.

These changes can be found in Sections 16.2(c), 16.3, and new sections 22.7, 22.7(a), 22.7(b), and 22.7(c). Sections 22.8-14 have been renumbered to accommodate the new section.

Additional Revisions to Requirements for MHC Mortgages

In Section 14.5(c), we are clarifying that for a Mortgage secured by an MHC Property, the Seller/Service must review the requirements in Sections 14.5(c) and 22.6(b).

In Section 22.2(b), we are clarifying that a Property that Freddie Mac determines to be a recreational vehicle campground is an ineligible Property for an MHC Mortgage.

We are revising Section 22.3(b) to indicate that the term requirements for conventional cash Mortgages found in Section 17.2(c) now apply to MHC Mortgages. The term of an MHC Mortgage may be from five to 30 years.

With respect to the Property description and valuation requirements in Section 22.6(b), we are clarifying that the property condition consultant must confirm that

- Wells are neither owned nor maintained by residents
- Waste treatment systems are neither owned nor maintained by residents

Also in Section 22.6(b), we are revising the requirements for electrical capacity. A Manufactured Housing Community with electrical power under 60 amperes is permitted, provided the property condition consultant confirms that the electrical power meets the minimum requirement of State and local building codes. If the electrical power is below the requirements of State or local building codes, the property condition consultant must confirm that the current power level is sufficient or recommend corrective measures.

Good Faith Deposit for the Early Rate-Lock Delivery Option

We are making changes to our processes for handling the good faith deposit, as follows:

- For cash good faith deposits, the Seller/Servicer will no longer submit the good faith deposit to Freddie Mac. Instead, the Seller/Servicer must collect and hold the good faith deposit in a Custodial Account in trust for Freddie Mac as security for all or a portion of the Seller/Servicer's obligations. The amount of the good faith deposit will be specified in the early rate-lock application.
- With the approval of Freddie Mac, the Seller/Servicer may hold a letter of credit in lieu of holding cash for all or a portion of the good faith deposit. The letter of credit must not exceed the amount specified in the early rate-lock application, and the Seller/Servicer must obtain and hold an opinion of issuer's counsel and an executed Letter of Credit Certification form.
- If the Seller/Servicer is holding cash, the Seller/Servicer must upload to DMS confirmation of receipt of the good faith deposit within two Business Days of rate-lock. If the Seller/Servicer fails to submit confirmation that the good faith deposit has been deposited in the Custodial Account, Freddie Mac is entitled to consider this as a nondelivery.
- The Seller/Servicer may release the good faith deposit prior to the Freddie Mac Funding Date provided that certain requirements are met.
- If the Seller/Servicer is holding a letter of credit as part of the good faith deposit, Freddie Mac may demand delivery of the letter of credit at any time if the Seller fails to provide evidence of a renewal or replacement of the letter of credit at least 30 days prior to expiration of the letter of credit, or if Freddie Mac is entitled to retain the good faith deposit in payment of a late delivery extension fee or Seller breakage fee.

These changes apply to conventional cash Mortgages, including TAH Cash Mortgages, Supplemental Mortgages, Seniors Housing Mortgages, and MHC Mortgages. The changes can be found in Sections 17.16(a), 17.16(b), 17.16(c), 17.16(d), 17.18(e), 17.18(f), 17.20, 17.21(e), 17.23, 17.24, 17.25(f), 17.26, 19.14(a), 19.14(b), 19.14(c), 19.14(d), 19.16(e), 19.16(f), 19.24, 20.10, and 20.14.

Crowdfunding

We are defining Crowdfunding as the practice of funding a project or venture by raising capital

- Via general solicitation (i.e., marketing directed to the public at large, whether via the internet or otherwise) that (i) names Freddie Mac, or (ii) names or contains any information about the Mortgaged Property; and/or
- From unaccredited investors in a public offering (e.g., under the related exemptions of Title III or Title IV of the Jumpstart Our Business Startups (JOBS) Act).

We are adding to the Guide the following Borrower requirements for Crowdfunding:

- No Controlling Party may consist of ownership derived through Crowdfunding

- No Borrower or Borrower Principal may consist of direct or indirect ownership (or other economic) interests of 25 percent or more in the aggregate that have been marketed or sold to investors through any form of Crowdfunding unless approved by Freddie Mac
- The preliminary legal issues memorandum (PLIM) must include analysis of any Crowdfunding in the ownership structures of the Borrower or Borrower Principals

See Section 9.2(g) and the Glossary for these changes.

Revisions to Requirements for Post-purchase Reporting

We are announcing upcoming changes that will provide consistent reporting requirements across a Servicer's Freddie Mac multifamily portfolio. Beginning with Quarterly Financial assessments for the second quarter due August 31, 2017, only CREFC-formatted submissions will be accepted in PRS. Servicers submitting the Annual Financial Statements for 2017, due March 31 or May 31 of 2018, must use the A-CREFC-MF or A-CREFC-HC format, as applicable. We have added a future Section 40.2(b) dated 08/31/17 that shows these changes. The existing table in Section 40.2(b) will apply to only Servicers reporting on an "off-cycle" calendar and those reporting late.

In other changes, effective immediately, we are updating Chapter 40 to require the Mid-Year Rent Schedule for any SBL Mortgage originated on a Loan Agreement with a revision date on or after 11/08/2016. The Servicer must submit the rent schedule via the Property Reporting System (PRS) and indicate the effective rent schedule date, physical occupancy percentage and total actual rent for each loan in PRS. These changes can be found in Section 40.2(a), 40.2(b), 40.5, and 40.5(b).

Also in Section 40.2(b), we are adding requirements for supplemental forms that the Servicer must submit via PRS when using the A-CREFC assessment format:

- For a Property owned by a Cooperative, the Servicer must complete and submit the Excel[®] Co-op Assessment Supplemental Form
- For a Property securing a Bond Credit Enhancement Mortgage, the Servicer must complete and submit the Excel[®] Bond ADS Supplemental Form

The Co-op Assessment Supplemental Form and the Bond ADS Supplemental Form can be found under the PRS Assessment: CREFC heading on the Multifamily Asset Management page of FreddieMac.com.

We are also making the following minor changes:

- Adding an email address in Section 40.11 that the Servicer can use to report proposed changes to the General Loan Information (GLI)
- Updating Sections 40.16(b) and (c) to reflect the fact that we have changed the name of the Value-Add Monitoring Form to the Unstabilized Monitoring Form

Servicing Requirements for Credit Facilities (Revolving Lines of Credit)

Revolving lines of credit purchased by Freddie Mac have previously been serviced in accordance with the terms of the Guide as well as a separate Servicing Agreement executed by the Seller and Freddie Mac at the time of the origination of the revolving line of credit. We are now incorporating the terms of the separate Servicing Agreement on all newly originated revolving lines of credit into the Guide, which will eliminate the need to execute a separate Servicing Agreement for revolving

lines of credit at the time of origination and simplify the loan documentation required at closing of the credit facility.

These requirements can be found in Sections 43.31 and 54.14.

Securitization Disclosure

We are confirming current Securitization practice by including an acknowledgement by the Seller that, at the request of Freddie Mac, it will provide Freddie Mac with certain disclosure items if the Seller contributes 20 percent or more of the Mortgages in a Securitization or if it will service 20 percent or more of the Mortgages in a Securitization. The disclosure items include:

- Information to be included in the offering documents with respect to the Seller in its capacity as originator of the Mortgages and in its capacity as Servicer of the Mortgages, if applicable
- An indemnification satisfactory to Freddie Mac with respect to the information to be included in the offering documents
- A letter of counsel (often referred to as a 10b-5 Negative Assurances Letter) addressing whether the Seller's Disclosure Information contains an untrue statement of any material fact or omits to state a material fact necessary in order to make the statements not misleading

For a complete description of the Seller's disclosure items, see Section 27.3(o).

Environmental Assessment Protocol for Drinking Water Quality

To ensure greater consistency of Guide requirements, we have updated Section 13.10(b) to state that the environmental consultant must obtain and test drinking water samples from a Property if the Property is not serviced by a municipal water system, and the environmental consultant cannot determine if the drinking water complies with applicable federal, State, and local requirements, or the most recent testing is more than six months old at the time of the site visit.

Shared Access/Shared Use Agreements

In Section 8.8(b), we are now requiring each Shared Access Agreement to contain a stipulation that access to and use and enjoyment of any easement or private road are perpetual and that such rights will inure to the benefit of all future owners of the Property.

In Sections 8.9(e) and 8SBL.6, we are also requiring each Shared Use Agreement to contain a stipulation that access to and use and enjoyment of the Essential Facilities and/or Recreational Facilities are perpetual and that such rights will inure to the benefit of all future owners of the Property.

IRS Forms 1099-A and 1099-C; Freddie Mac Form 1065M

We are updating Chapter 43 to incorporate changes to the IRS tax information reporting requirements for IRS Form 1099-A, Acquisition or Abandonment of Secured Property, and IRS Form 1099-C, Cancellation of Debt. In support of these changes, we are also revising Form 1065M, Report of IRS Form 1099-A and Form 1099-C Filings, and its instructions. These changes can be found in Sections 43.1, 43.3, 43.3(a), 43.3(b), 43.3(c), and 43.3(d). The revised Form 1065M can be found on FreddieMac.com and AllRegs.

LIHTC Syndicators

We are revising Section 19.2(d) to add requirements for an eligible LIHTC syndicator and to eliminate the LIHTC syndicator request form. We are updating the following forms to support this change:

- Form 1115, Borrower and Borrower Principal Certificate
- Form 1115-SBL, Borrower and Borrower Principal Certificate SBL

Updates to Chapter 55, Documentation and Deliveries

We are updating Sections 55.1 and 55.1(c) and the title of Section 55.2 to reflect the fact that this chapter is used to prepare underwriting packages and documentation required for a Transfer of Ownership, as indicated in Chapter 41.