



Bulletin

NUMBER: M2016-4

TO: Freddie Mac Multifamily Sellers and Servicers

June 30, 2016

SUBJECTS

With this Bulletin for the Multifamily Seller/Servicer Guide (Guide), Freddie Mac is integrating the content of the SBL Guide Addendum and its exhibits published on FreddieMac.com into the base Guide published on AllRegs. In conjunction with this change, we are announcing that the SBL Guide Addendum is no longer in effect and will be removed from FreddieMac.com on August 1, 2016.

In this Guide Bulletin, we are making the following additional changes:

- Adding underwriting requirements for a TAH Mortgage with subordinate debt
- Revising our requirements for assessments and post-purchase reporting to
 - Revise the requirements for the notification the Servicer must provide to the Borrower and the follow-up actions that the Servicer must undertake when a property inspection identifies Life Safety Hazards, environmental issues, moisture or Mold issues, or Deferred Maintenance
 - Permit the Servicer to request a change in the due date for the next property inspection if a property condition report prepared for the Property is more current than the last Annual Inspection Form (AIF) submitted via PRS
 - Add instructions for reporting the closing out of the value-add rehabilitation period for a Value-Add Mortgage
- Adding new Reserve requirements for a Mortgage secured by a Student Housing Property
- Updating our requirements regarding electronic signatures, electronic records and data security
- Clarifying the documentation to be delivered in the underwriting package for a Forward Commitment where the Seller/Servicer is utilizing a standard review or an expedited review
- Updating the requirements for electrical capacity, overload protection and aluminum wiring
- Revising our requirements for the delivery to Freddie Mac of items required in connection with a Borrower request for approval of a Transfer of Ownership
- Revising the timing requirement for a Servicer notification to Freddie Mac when the Servicer has taken an action under a delegated approval to extend the completion date of a repair agreement
- Adding a Green Building Certificate to the underwriting checklist
- Making minor housekeeping changes

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, with the exception of the text of the new SBL-specific Guide Chapters, which will appear in black. If you have any questions about this Bulletin, please call your Freddie Mac representative.

Sincerely,

David Brickman
Executive Vice President
Multifamily

Origination and Servicing Requirements for SBL Mortgages

Since the inception of the Small Balance Loan Purchase Product (SBL Purchase Product) in October 2014, Freddie Mac has maintained requirements unique to originating and servicing SBL Mortgages in an addendum to the Freddie Mac Multifamily Seller/Servicer Guide published on FreddieMac.com (the SBL Guide Addendum).

With this Bulletin, we are integrating the content of the SBL Guide Addendum and Exhibits into the base Guide published on AllRegs. As a result, the Guide will contain 10 new SBL Purchase Product-specific Guide Chapters (SBL Guide Chapters). Additionally, we are modifying more than 20 Guide Chapters to accommodate SBL-specific requirements that do not require corresponding separate SBL Guide Chapters.

Effective immediately, the SBL Guide Addendum is no longer in effect and will be removed from FreddieMac.com on August 1, 2016.

Guide Chapters Revised or Added to Accommodate SBL Purchase Product Requirements

- 23 existing Guide Chapters are being revised to clarify or add SBL Purchase Product-specific requirements. These changes will be highlighted in green on AllRegs.
- The Directory and the Glossary are being revised to include SBL-related contact information and definitions.
- Exhibit 10, Lender Review, Processing, and Consent Fee Schedule, is being revised to add SBL Guide Chapter references.
- 10 new SBL Guide Chapters are being added to house SBL Purchase Product-specific requirements. The requirements in these Chapters are exclusively for SBL Mortgages and can differ significantly from those for non-SBL Mortgages. The SBL-specific Chapter titles include an “SBL” suffix as part of their Chapter number.

Freddie Mac recommends that SBL Seller/Servicer review the new SBL Guide Chapters in their entirety:

Chapter	Title
6SBL	SBL Legal Services for Mortgage Origination and Servicing
8SBL	SBL Property Fundamentals
9SBL	SBL Borrower/Borrower Principal Fundamentals
14SBL	SBL Physical Risk Report Requirements
16SBL	SBL Seismic Risk Assessment Requirements
18SBL	SBL Originating an SBL Mortgage
29SBL	SBL Title, Description, Survey and UCC Search
32SBL	SBL Final Delivery Requirements
41SBL	SBL Transfers of Ownership
46SBL	SBL Collateral, Loss, Repurchase, Servicing, and Securities Purchase

Unless Freddie Mac indicates otherwise in writing, for SBL Mortgages, Seller/Servicers are to use the SBL-specific versions of Chapters 6, 8, 9, 14, 16, 18, 29, 32, 41 and 46.

In addition to the Chapters, Directory and Glossary, we are now publishing the underwriting checklist used for SBL Mortgages and four SBL-specific forms on AllRegs, as follows:

Item	Title
Exhibit 1, Section 1.2	Underwriting Checklist: Small Balance Loan Checklist
Form 921	Letter of Credit – SBL Certification
Form 1104	SBL Physical Risk Report
Form 1115 SBL	Borrower and Borrower Principal Certificate – SBL
Form 1117 SBL	Borrower Certification of Physical and Environmental Property Condition – SBL

Unless Freddie Mac indicates otherwise in writing, for SBL Mortgages, Seller/Servicers are to use the SBL-specific version of Forms 1115 and 1117. SBL Exhibit 13, SBL Prepayment Provisions, is being retired.

Substantive Changes to SBL Purchase Product Requirements

In conjunction with this update, we are making the following substantive changes to the SBL Purchase Product requirements:

- As outlined in the new Chapter 32SBL, Final Delivery of an SBL Mortgage will be a single delivery package instead of “Core” and “Non-Core” packages.
- As reflected in Section 14SBL.3(b), the number of days required for completion of Priority Repairs other than PR-90 Repairs is being extended from 180 to 365 days.
- We are revising Section 39.4 to permit Servicers to extend these completion dates for existing Mortgages as long as the Priority Repair does not pose life, health or safety issues and to delegate to the Servicer, under certain conditions, approval of repair agreement extensions for SBL Mortgages. The Servicer must notify Freddie Mac of any actions taken under this delegated approval within two days after the effective date of the approval.
- We are revising the underwriting checklist in Exhibit 1, Section 1.2 to add the requirement for an Ownership Interest Disclosure, accompanied by a document analysis performed by Single Counsel, if the Seller/Servicer, or any of its directors, officers, or affiliates has an ownership interest in the Borrower or Property.
- In Section 5.2(1), we are updating the origination fee requirements for SBL Mortgages to permit minimum origination fees based on the UPB of the SBL Mortgage.
- In Section 2.14, we are permitting Seller/Servicers to deliver the following SBL Guide forms using E-Signatures from Borrowers:
 - Form 1115 SBL, Borrower and Borrower Principal Certificate – SBL
 - Form 1116, Real Estate Schedule
 - Form 1117 SBL, Borrower Certification of Physical and Environmental Property Condition – SBL
 - Form 1144, Verification of Collections

Housekeeping Updates to Support the Integration of the SBL Guide Addendum into the Base Guide

Finally, throughout the Guide we are making the following minor editorial changes for clarity and to accommodate the integration of SBL Guide Addendum content:

- Revising Guide references to refer to SBL or non-SBL Mortgages as applicable
- Referring SBL Seller/Services to the Small Balance Loan team rather than a Regional Office

- Reorganizing Guide Sections to enhance readability when suitable
- Including references to SBL-specific Chapters and forms, where appropriate, and
- Making editorial revisions to the Form 1104, which we will publish to FreddieMac.com as soon as the revisions are completed. Seller/Servicers will continue to use the current version of the Form available on FreddieMac.com until the revised version of the Form is published.

Subordinate Debt for TAH Mortgages

We are adding Sections 19.3(f) and 28.2(e) to the Guide to contain provisions for TAH Mortgages with subordinate debt, including definitions of hard and soft subordinate debt and requirements for the minimum combined DCR, maximum combined LTV, amortization, term, debt service, accrual and foreclosure provisions. These requirements apply to TAH Cash Mortgages and TAH Bond Credit Enhancement Mortgages.

The terms acceptable to Freddie Mac will vary based on the nature of the entity providing the subordinate debt, with governmental entities and non-profit entities with a mission of preserving and developing affordable housing receiving more favorable terms.

Remediation of Deferred Maintenance, Life Safety Hazards, and Environmental Issues

Freddie Mac has required the Servicer to notify the Borrower of the need to take corrective action to address issues identified during the annual property inspection (such as Life Safety Hazards, environmental issues, moisture or Mold issues, and or Deferred Maintenance items) when the estimated cost of remediation of the issues was \$1000 or more.

We are now requiring the Servicer to notify the Borrower when the cost of remediation is \$10,000 or more. The Servicer must confirm that the Borrower has received this notice. If the estimated sum for remediation of the Deferred Maintenance or other identified issues is greater than \$25,000 or the Deferred Maintenance or other identified issues pose an imminent Life Safety Hazard to the tenants or Property's structure and value, then in addition to the notice the Servicer must follow up in a timely manner until such risks have been remediated or resolved. Imminent Life Safety Hazards continue to require immediate action.

These changes can be found in Section 40.6(d).

Timing of the Property Inspection Report

We are now permitting the Servicer to request a change in the due date of the property inspection if a property condition report prepared for the Property is more current than the last inspection. For example, if the last property inspection took place on April 15, 2016 and a property condition report was prepared on December 15, 2016 in conjunction with the origination of a supplemental loan, the Servicer can submit a request in PRS to move the next inspection to December 31, 2017. See Section 40.7 for additional details.

Quarterly Reporting for Value-Add Mortgages

We are revising our requirements for post-purchase reporting to add additional instructions for Value-Add Mortgages. When the Servicer submits quarterly reporting at the end of the Value-Add rehabilitation period, then in addition to the Borrower Quarterly Certification and the Value-Add Monitoring Form, the Servicer must submit the following:

- Certification of substantial completion by the Architect of Record (if applicable)
- Final payment certification from the general contractor
- Final and unconditional waiver of lien from the general contractor

This change can be found in Section 40.15(b). The Value-Add Monitoring Form, which can be found on FreddieMac.com, has been revised to include the close-out instructions.

Reserve Requirements for Student Housing Properties

We are revising the Guide to provide that for a Letter of Commitment issued by Freddie Mac with respect to a Mortgage securing a Student Housing Property, where the Letter of Commitment is dated after January 1, but before the start of the next school year, the Borrower must establish a pre-leasing debt service Reserve which will be released when the Property achieves stabilized net rental income and occupancy during the next school year. Freddie Mac will waive the requirement for the Reserve upon one of the following:

- The Property has achieved pre-leasing for the next school year equal to or greater than underwritten occupancy
- The Mortgage is a refinance of a Property with at least two full years of stable operating history and pre-leasing for the next school year is equal to or better than the pre-leasing level for the same month in the prior school year
- Or otherwise at Freddie Mac's discretion

Freddie Mac may require an ongoing Reserve for seasonal vacancies based on the Student Housing Property's ability to cover debt service in periods of reduced income.

These requirements are found in new Section 8.19, which also contains the existing requirement to submit a Form 1120, Student Housing Questionnaire, in the underwriting package and a reference to the Appraisal requirements for Student Housing Properties in Section 12.22.

Electronic Signatures, Electronic Records, and Data Security

We are updating Section 2.14 of the Guide to incorporate current electronic commerce standards and allow all third party underwriting reports to be signed electronically for all Mortgages.

Construction Documents Required for a Forward Commitment

We are revising our requirements for the review of construction documents for a Forward Commitment. With the underwriting package, the Seller must submit:

- For an expedited review, a pre-construction analysis report and a narrative summary including a property and site description and a summary analysis of the development team's qualification

- For a standard review, the pre-construction analysis report, the narrative summary described above, plans, specifications, a schedule of values, construction contract(s), construction schedule, and building permits and other government approvals

The narrative summary must be prepared by the Seller's Chief Architect/Engineer.

For an expedited review, within 90 days after the date of the Forward Commitment, the Seller must deliver to the *Multifamily TAH Underwriter*

- The final pre-construction analysis report
- Final plans and specifications (stamped and signed)
- Executed construction contract with all exhibits

These changes can be found in Sections 15.6(c), 19A.1(d), 28.1(e) and the entries for construction documentation in Section 55.2. We have also revised the full underwriting checklists for Forward Commitments found in Exhibit 1, Sections 1.30 and 1.32.

Electrical Capacity and Overload Protection

We are revising Section 14.5(c) to require a load analysis if unacceptable power service levels are encountered or reported. We have also clarified that if the consultant determines that the power supply is inadequate, then the Borrower must take measures to correct the inadequate power supply before the Origination Date or establish a Repair Reserve with a completion date satisfactory to Freddie Mac.

Section 14SBL.5(c) has also been revised to indicate the corrective measures required.

Transfers of Ownership

We are now requiring the Servicer to deliver to Freddie Mac any item required for a Transfer of Ownership approval request within one Business Day following the Servicer's receipt of such an item. The Servicer must electronically submit to Freddie Mac all items required for a complete review package, as well as the Servicer's recommendation, within 15 days prior to the proposed date of the Transfer of Ownership.

These changes can be found in Section 41.4.

Notification to Freddie Mac when a Servicer Has Delegated Authority to Extend a Repair Agreement

When a Servicer of a non-SBL Mortgage has delegated authority to extend the completion date of a Repair Agreement, we are now requiring that the Servicer notify Freddie Mac of any actions taken under this delegated approval within two days after the effective date of the approval, instead of within 30 days. This change can be found in Section 39.4(b)(2)(E).

Green Building Certificate

We are adding to the non-SBL underwriting checklists the documentation required for Green Certified buildings. Acceptable green ratings or certifications include the following

- EarthCraft Certification

- ENERGY STAR for Multifamily Certification
- ENERGY STAR Qualified MF High-Rise Certification
- Green Communities Certification
- Green Globes Certification
- GreenPoint Rated Certification
- LEED Certification
- National Green Building Standard Certification
- Any other approved certification provided by the applicable authority

This change can be found in the conventional cash and TAH checklists, and in Section 55.2.

Minor Housekeeping Changes

We are making the following minor housekeeping changes:

- Moving our liability insurance requirements for third party consultants from Section 31.26 to Section 11.5
- Moving the requirements for Subordinate Financing from Section 43.9 to Section 43.29, to better accommodate the addition of new Section 43.30, which contains the Subordinate Financing conditions and requirements for SBL Mortgages
- Moving minimum origination fee requirements to a chart in Section 5.2(l); previously these requirements were in Section 10.10
- In Sections 13.1 and 14.1, reminding Seller/Service providers of MHC Mortgages that they must refer to specific environmental and property condition requirements in Section 22.6 in addition to the requirements in Chapters 13 and 14

Sections 11.5, 12.4(a), 12.7, 13.1(b), 13.18(d), 14.2, 14.8(d), 15.5(a), 15.5(b), 16.3, 16.11(c) and 31.26 have been revised to reflect the change in location of the insurance requirements. The change regarding the location of existing Subordinate Financing conditions and requirements required revisions to Sections 43.9 and 43.29, as well as to Exhibit 10, Lender Review, Processing and Consent Fee Schedule.