

TO: Freddie Mac Multifamily Sellers and Servicers

July 1, 2014

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

- Introducing requirements for the purchase of loans secured by Manufactured Housing Communities
- Rewriting our Appraisal chapter to incorporate practices that we have included in our Best Practices memo and have discussed with the appraiser and Seller/Servicer community
- Adding requirements for a Chief Servicing Officer and revising Servicing Spreads
- Revising our full underwriting checklists to require submission of a Property's certificates of occupancy with the full underwriting package instead of the Final Delivery Package, to require a property condition report for all Supplemental Mortgages, and to revise the required submission date of the Real Estate Schedule – Form 1116
- Consolidating and clarifying title, survey, and telecommunications agreement requirements
- Revising our insurance requirements to include some updates and minor clarifications
- Making changes to our provisions for interest rate hedge agreements
- Permitting a Delaware Statutory Trust to be a Borrower, subject to additional requirements
- Indicating that we will consider purchasing Mortgages where the Borrower plans renovations shortly after loan closing (Value-Add Loans)
- Simplifying our requirements for hazard loss reporting
- Updating our procedures for Servicing requests requiring Freddie Mac consent
- Clarifying our requirements for the delegation of approval authority for certain Servicing requests
- Clarifying Freddie Mac's requirements for the purchase of Supplemental Mortgages
- Updating our provisions for fraud notification, reporting and training
- Clarifying the qualifications for a Level 1 Seismic Risk Assessments (SRA) consultant
- Clarifying education and training requirements for environmental consultants
- Reserving the right to send emails to Seller/Servicer personnel regarding various subjects of interest
- Making administrative and other minor changes to Guide forms and exhibits

Effective dates

The effective dates for this Guide Bulletin are as follows:

- Servicers must designate a Chief Servicing Officer (CSO) and provide a CSO certificate for each Servicing request submitted on or after July 15, 2014.
- Sellers must include the certificates of occupancy in all full underwriting packages delivered to Freddie Mac on or after July 15, 2014.
- Revisions regarding the training of employees to detect fraud are effective January 1, 2015.
- All of the other changes announced by this Bulletin are effective immediately.

Conclusion

Guide text for the changes in this Bulletin is highlighted in green on AllRegs, with the exception of any new Chapters. If you have any questions about this Bulletin, please call your Freddie Mac representative.

Sincerely,

David Brickman
Executive Vice President, Multifamily

Manufactured Housing Community Product

Under the Multifamily Manufactured Housing Community Product Freddie Mac will purchase loans that are secured by Manufactured Housing Communities (MHCs).

The security for an MHC loan consists primarily of the MHC's land – a residential real estate development that includes rental sites – and its related amenities, infrastructure and any borrower owned manufactured homes located in the MHC. To be eligible for purchase by Freddie Mac, the initial principal balance of the loan may be no less than \$1 million dollars and must meet the requirements of the Freddie Mac Seller/Servicer Guide, including all provisions specifically relating to MHCs. In addition, each Manufactured Home must conform to the requirements of the federal Manufactured Home Construction and Safety Standards of 1974 (42 USC chap. 70; 24 CFR Part 3280), as amended.

Freddie Mac must approve a Program Plus[®] Seller/Servicer to originate or to service MHC loans. Generally, a Seller/Servicer must have expertise in MHCs and retain specialized staff that is experienced and knowledgeable in the structure, origination, and delivery of loans to Freddie Mac with specialized experience in MHC loans. Seller/Servicers interested in selling MHC loans to Freddie Mac should contact the Applicable Freddie Mac Multifamily Regional Office.

Chapter 22, Originating a Mortgage under the Multifamily Manufactured Housing Community Product, has been added to the Guide and contains the requirements unique to the MHC Product. Except where specifically noted, all other Guide requirements apply to MHC Mortgages as they would apply to other Cash Mortgages submitted to Freddie Mac for purchase or being serviced by one of our Seller/Servicers.

Seller/Servicers interested in submitting MHC loans to Freddie Mac for purchase should read Chapter 22 in its entirety.

Freddie Mac reserves the right to apply additional or more stringent requirements to any transaction.

Guide Sections 8.15, 12.26, 14.6(d), 17.1(a), 17.4(b), 17.4(c), 29.1(g), 29.5(e) and 31.28 have been updated in support of the MHC Product. In addition, for use with MHC Properties, we have created the MHC Property Inspection and Lease Audit form, which can be found on FreddieMac.com.

Updates to Appraisal Requirements

We have worked with representatives from our Seller/Servicers and the appraisal community on the first comprehensive review of our Appraisal requirements in over six years. This effort has resulted in a number of revisions to our requirements for Appraisal methodology, technique, data, discussion, content, analytical transparency and format, with the goal of improving Appraisal quality. For the most part, we are not adding any new concepts or requirements that we haven't already published in our existing Best Practices memo, or that we haven't discussed with the appraisal and Seller/Servicer community over the past several years.

We have made changes throughout Chapter 12, and we encourage Seller/Servicers to read the chapter in its entirety to ensure that they understand the new requirements.

Highlights of the most significant changes are as follows:

- Including more specific requirements concerning the transmission of the property condition report and the environmental report to the appraiser
- Emphasizing that the appraiser must address the content of a third party report noting any issues, even if the appraiser only receives a draft of the third party report

- Specifying the number and type of units the appraiser must inspect and now requiring the appraiser to state which units they inspected
- Asking appraisers to discuss the risk of reassessment of property taxes and to quantify that risk
- Eliminating net income multipliers or adjustments to net operating income in the sales comparison approach to focus the appraiser's analysis on why net operating income varies among properties
- Requiring the appraiser to discuss and analyze differences in the Property's actual rents and the appraiser's estimate of market rents
- Requiring the appraiser to do a more complete analysis of the capitalization rate, since small differences in the capitalization rate could have a material impact on value
- Eliminating the need for a discounted cash flow, since this analysis is often not applicable to our Properties, especially those operating at stabilization or those that will achieve stabilization in one or two quarters
- Requiring the appraiser to include the date of the photographs included in the Appraisals; pictures taken from internet sources or marketing materials are acceptable if appropriately labeled
- Adding sections for Affordable Housing, Seniors Housing and Insurable Value

If you would like us to discuss these changes, revisions, edits, and updates in-person with you and your staff, please contact Marty Skolnik at Martin_Skolnik@freddiemac.com. Freddie Mac Seller/Servicers and multifamily appraisers are also invited to join the Freddie Mac Multifamily Appraisal LinkedIn Group, which will give you the opportunity to follow additional discussion topics and to ask Marty about our Appraisal requirements.

Chief Servicing Officer Certification and Revisions to the Servicing Spread

We are revising Section 36.1(b) to require that each Servicer designate a Chief Servicing Officer, subject to Freddie Mac's approval. The Chief Servicing Officer must be an officer involved in, or responsible for, the administration and Servicing of Mortgages and/or whose primary responsibilities are related to the underwriting or analysis of the creditworthiness of loans being serviced by such Servicer.

In addition, effective July 15, 2014, for each Servicer request for Freddie Mac approval of a transaction, the Servicer must include in the materials submitted to Freddie Mac a certification executed by the Chief Servicing Officer in the form found on FreddieMac.com, attesting to the package quality and adherence to the requirements of the Guide (or, for a securitized loan, the applicable Servicing Standard set forth in the securitization documents).

To align our Servicing Spreads with the revised Servicing transaction fees implemented in the Loan Documents issued July 1, 2014, we are increasing our Servicing Spreads accordingly for Mortgages originated on the new documents. These increased Servicing Spreads apply only to Mortgages originated on Loan Agreements with revision dates on and after July 1, 2014. These changes can be found in Sections 17.4(m), 20.3(j) and 21.5(h).

Changes to the Full Underwriting Checklists

We are making the following changes to the full underwriting checklists for Mortgages using the standard delivery option or the early rate-lock option:

- We are requiring that Sellers submit the certificates of occupancy for a Property as part of the zoning documentation. If all of the certificates of occupancy are not available, the zoning report must include the statements provided in Section 8.5.

- We are also requiring Sellers to submit a property condition report for all Supplemental Mortgages, unless notified otherwise by Freddie Mac. Previously, a property condition report for a Supplemental Mortgage was only required for a split Supplemental Mortgage, if the most recent Annual Inspection Form (AIF) indicated Deferred Maintenance, or if Mold was detected at the Property.
- We are revising our underwriting requirements to permit the Real Estate Schedule – Form 1116 to be dated within 180 days of the date of submission of the full underwriting package. Previously, the Real Estate Schedule had to be dated within 60 days of submission of the full underwriting package.

Sellers must include certificates of occupancy in all full underwriting packages delivered to Freddie Mac on or after July 15, 2014. For these transactions, the Seller will not be required to include the certificates of occupancy in the Final Delivery Package; however, the Seller will be required to indicate on the Seller's Certification Regarding Certificates of Occupancy (available on FreddieMac.com) that such certificates were included in the full underwriting package.

To reflect these changes to the underwriting package, we have revised Section 55.2 and the following underwriting checklists in Exhibit 1: Sections 1.1, 1.26 and 1.29.

Title, Survey and Telecommunications Agreement Modifications

We are updating Chapter 29 and Sections 8.11(c) and 43.10 to clarify and consolidate the requirements applicable to title and survey matters as well as to telecommunication agreements.

In our revisions to Chapter 29 we are:

- Clarifying which title endorsements are required to be delivered for a Mortgage
- Redefining the safe harbor requirements applicable to telecommunication agreements
- Requiring that all applicable setback restrictions be shown on the survey (whether they are imposed under zoning law or recorded title documents)
- Clarifying that only those encroachments and violations shown on the survey that affect buildings or material improvements need to be identified by Seller in the Title Exception and Survey Analysis

These changes can be found in Sections 29.1(f), 29.1(g), 29.2(b)-(e), 29.4 and 29.5(b).

The subordination requirements applicable to telecommunication agreements and the conditions under which Freddie Mac may enter into an SNDA with a telecommunications provider are being further clarified in Section 8.11(c). Section 43.10 has also been revised to reflect this change.

Revisions to Insurance Requirements

Recently we reviewed the insurance provisions in the Loan Agreement, the Seller/Service Representations and Warranties and the Pooling and Servicing Agreement. As a result of this review, we identified several clarifications that are necessary for greater consistency. In addition, we wanted to address comments we've received from Seller/Service with respect to business income for Cooperatives, and to add a new form endorsed by commercial and multifamily lenders to the list of acceptable forms for providing evidence of insurance.

In Section 31.2(e), we are adding language to state that each property damage policy must contain a standard mortgagee or mortgage holder's clause as well as a loss payable clause in favor of, and in a form acceptable to, Freddie Mac. During the Securitization process, Freddie Mac follows up with Servicers regarding the provisions of mortgagee and loss payable clauses. This Guide update reflects our current business process and provides clarity that both types of clauses are required.

In Section 31.2(f), we are clarifying that the cancellation clause provisions apply both to the property damage policy and the liability insurance policy. The carrier is required to notify the lender if the carrier cancels the policies.

We are revising Section 31.6 to state that Business Income/Rental Value Insurance must be sufficient to cover the minimum number of months of effective gross income (EGI) based on the underwritten EGI or the most recent year-end financials, and the minimum extended period of indemnity specified in the Guide. For Cooperatives, the calculation of the EGI must include routine maintenance fees and special assessments for the Property.

Section 31.12 now requires Ordinance and Law Coverage to include an Increased Period of Restoration endorsement that extends business income and extra expense coverage to provide additional time to restore operations when delayed due to enforcement of building or zoning laws. “Regular” business income coverage due to physical damages is covered under the “all-risk” provisions.

In Section 31.20(a), we are adding the Mortgage Bankers Association (MBA) Evidence of Insurance – Commercial Property Form to the list of documents providing acceptable evidence of property insurance.

Interest Rate Hedge Agreements

Third-Party Interest Rate Cap Agreements for Cash Mortgages

We are making a number of changes to our provisions for interest rate cap agreements. For a newly originated cash Mortgage, we are now specifying that the Borrower must bid the cap agreement not later than the Origination Date. Seller/Servicers must deliver the original cap agreement in the Final Delivery Package. If a cap agreement expires prior to the maturity date of the Mortgage, the Borrower must make monthly cap deposits with the Servicer sufficient to accumulate funds in an amount equal to 125 percent of the amount estimated by the Servicer to be sufficient to purchase, immediately prior to the termination of the then-existing cap agreement, a subsequent third-party cap agreement with a term expiring on the maturity date of the Mortgage.

A subsequent cap agreement for a cash Mortgage must meet the following requirements:

- A term not earlier than one year from its effective date
- A strike rate that does not exceed the original strike rate set forth in the Loan Documents
- A notional amount equal to the outstanding indebtedness on the effective date of the subsequent cap agreement

With respect to subsequent cap agreements for cash Mortgages, the Servicer must make adjustments to the cap deposits on a semi-annual basis, unless the Loan Documents provide for a different interval. The Servicer must submit the first scheduled Reserve adjustment following the Origination Date to Freddie Mac for approval not less than 15 days prior to the effective date of the cap deposits Reserve adjustment, in accordance with the Loan Documents. Upon receipt of Freddie Mac’s approval, the Servicer must notify the Borrower of the amount of the new monthly deposit for the cap deposits Reserve. The Servicer may calculate all subsequent adjustments to cap deposits Reserve payments in the manner set forth in the Guide and in accordance with the terms of the Loan Documents without Freddie Mac’s approval; however, Freddie Mac retains the right to require the Servicer to obtain Freddie Mac’s approval for all cap deposits Reserve adjustments.

Unless applicable law requires, Freddie Mac will not require the Servicer to pay the Borrower any interest, earnings or profits on the cash deposits related to cash Mortgages.

Sections 11.3, 11.3(d), 11.3(f), 43.21(a), 43.22(a), 43.22(b), 43.22(d) and 43.22(e) have been revised to incorporate the changes applicable to cash Mortgages.

Interest Rate Cap Agreements for Bond Credit Enhancement Mortgages

For interest rate cap agreements for Bond Credit Enhancement Mortgages, we are deleting all references to Section 21.12(b) of the TAH Guide, which is no longer in use. Instead, the Seller must set the strike rate in accordance with the reimbursement and security agreement. We are also specifying that by the expiration date of the interest rate cap agreement, the Reserves must be sufficient to equal 125 percent of the cost of a renewal, extension or replacement of the interest rate cap agreement. Any fee payable to the hedge provider must be paid in full upon execution of the interest rate cap agreement.

These changes can be found in Section 28.12(k).

Interest Rate Swap Agreements for Bond Credit Enhancement Mortgages

For those variable rate-bond transactions where interest rate protection is provided in the form of an interest rate swap agreement, the Loan Documents will specify that a cap deposits Reserve must be established at a particular point prior to the expiration of the interest rate swap agreement. The Loan Documents will specify the date on which the Borrower must begin making deposits to the cap deposits Reserve. The Servicer must establish, maintain and adjust the cap deposits Reserve as provided in Section 28.12 and in the reimbursement and security agreement.

The Servicer must attempt to collect any swap payments owed by the Borrower to the swap provider under the swap agreement. Not later than two Business Days following receipt by the Servicer from the Borrower of any swap payment owed to the swap provider, the Servicer must remit such swap payment to the swap provider.

Sections 28.12(k), 28.17(e), 28.18(a), 28.18(d) and 28.20 have been revised to incorporate the changes applicable to TAH Bond Credit Enhancement Mortgages.

Delaware Statutory Trusts

Freddie Mac is revising its policy to permit a Delaware Statutory Trust to be an acceptable Borrower, subject to additional requirements. Seller/Servicers should contact the *Applicable Freddie Mac Multifamily Regional Office* to discuss any loan where the Borrower is a Delaware Statutory Trust.

This change can be found in Section 9.2(a).

Value-Add Loans

We are indicating in the Guide that Freddie Mac will consider purchasing Mortgages where the Borrower expects to add value through renovations shortly after loan closing (Value-Add Loans).

This change can be found in Section 17.4(b). For additional information, Seller/Servicers can contact the *Applicable Freddie Mac Multifamily Regional Office* that serves the region where the Property is located. Additional materials are also available on FreddieMac.com.

Hazard Loss Notifications and Plans

We are simplifying hazard loss reporting by:

- Providing a single mailbox used for notifying Freddie Mac of a hazard loss
- Raising the limit of losses which require Freddie Mac concurrence on the use of loss proceeds to the lesser of 20 percent of the unpaid principal balance (UPB) or \$5 million
- Modifying the language regarding Freddie Mac's approval of disbursements to encourage Servicers to maintain this responsibility in most circumstances

These changes can be found in Sections 43.8(a) and (d).

Procedures for Servicing Requests Requiring Freddie Mac Consent

We are updating our requirements to ensure that Servicers take the following actions when notifying Freddie Mac of Servicing requests that require Freddie Mac's consent. For each request, the Servicer must:

- Enter the Borrower request into the Consent Request Tracker as required by Section 36.25
- Electronically deliver, to Freddie Mac, all required documentation including the Borrower's request and the Servicer's recommendation

We have revised Sections 43.10(e), 43.11(c), 43.12, 43.19(b) and 43.24(b) to reflect these changes.

Delegation of Approval Authority for Servicing Requests

We are clarifying our requirements for the delegation of approval authority for requests for an extension to a Repair Agreement, disbursement for additional capital replacement items, a utility or telecommunications easement, and a partial release of a Property. During any period in which Freddie Mac owns the Mortgage, if any one of the following conditions applies to the Mortgage, the request must be submitted to Freddie Mac for approval:

- The Mortgage was originated on a Note labeled "CME"
- The Mortgage was originated on a Note with a revision date on or after March 1, 2014
- The Servicer has received notification from Freddie Mac that the Mortgage has been designated for inclusion in a Securitization
- The Mortgage backs a Freddie Mac Multifamily Participation Certificate or a Freddie Mac tax-exempt or taxable Multifamily bond securitization

Sections 39.4(b), 39.5(b), 43.10(a) and 43.11(a) have been revised to reflect this change.

Purchase of Supplemental Mortgages

We are revising Section 20.1 to clarify that Freddie Mac purchases Supplemental Mortgage from Program Plus Seller/Servicers that have originated and are currently Servicing the First Mortgage (as defined in Chapter 20), or that are simultaneously originating the First Mortgage and Supplemental Mortgage(s).

Fraud Training and Reporting Requirements

Training (Effective January 1, 2015)

We are revising Section 7.1 to expand our employee fraud training requirements. Effective January 1, 2015, we will require that Seller/Service providers ensure that fraud training is received by individuals and entities engaged to perform functions typically handled by employees, and are in a position to notice or report fraud or suspected fraud. Seller/Service providers are not required to provide the training directly. They may instead hire another party to provide the training, or obtain an annual written verification from the engaged individuals or entities confirming that training has already been received in accordance with the Guide requirements.

Reporting Requirements

Effective immediately, we are updating the reporting and notification requirements. Section 7.2(a) has been revised to require Seller/Service providers to report to Freddie Mac when the Seller/Service provider has a reasonable belief that one of the activities identified in Section 7.2(a) occurs. We have also revised the time frame for reporting fraud and suspected fraud in Section 7.2(b) from within 30 days after its discovery to within 60 days of its discovery to provide the additional time required to research and report incidents of fraud and suspected fraud to Freddie Mac.

In Section 7.2(c), we are also requiring that Seller/Service providers immediately notify Freddie Mac:

- Of the entry of a guilty plea indicating lack of integrity and relating to a participant in a Mortgage transaction or related real estate transaction, or relating to a board member, officer, employee or contractor of the Seller/Service provider
- If the Seller/Service provider is notified by a governmental authority that such authority is conducting an investigation or prosecution of fraud relating to Mortgages owned by, or serviced for, Freddie Mac or relating to a board member, officer, employee or contractor of the Seller/Service provider

Qualifications of a Level 1 SRA Consultant

We are clarifying that either the consultant responsible for writing a Level 1 SRA or the consultant reviewing the Level 1 SRA must meet the following minimum requirements:

- Have a degree in engineering and/or architecture from an accredited institution
- Be a registered professional engineer (civil or structural designation) or a licensed architect with a minimum of five years of experience in building evaluations and authoring seismic reports
- Be in good standing with the state of issuance of the consultant's engineering or architectural license
- Have an engineering or architectural license issued by a state where seismic hazard is significant to the design and rehabilitation of buildings; acceptable registration States include California, Washington, Oregon, Nevada, New York, Tennessee, Hawaii, and Alaska

This change can be found in Section 16.11(a).

Education and training requirements for environmental consultants

We are making minor revisions to Section 13.18 to clarify our education and training requirements for environmental consultants.

Emails to Seller/Serviceirs

We are adding Section 2.21 to reserve the right to send emails to Seller/Serviceir personnel who register for training, events and access to the Freddie Mac Multifamily Software Applications. These emails will cover topics of interest, such as updates concerning our systems, products, services, and events. Seller/Serviceirs may adjust their email preferences at any time by visiting the Multifamily News Subscription Center on FreddieMac.com.

Forms and Exhibits

We are revising the names of the following forms:

- Reserves Held in Custodial Accounts – Form 1056
- Environmental Site Assessment – Form 1103
- Physical Condition Assessment – Form 1105
- Borrower Certification of Physical and Environmental Property Condition – Form 1117
- Borrower Application for Partial Release or Easement – Form 1125
- System User Verification and Certification – Form 1148

We are making the following additional forms changes:

- On the Borrower Certification of Physical and Environmental Property Condition – Form 1117, we are revising the certification language to require the Borrower to certify that there are no Stab-Lok circuit breakers used on the Property.
- On the System User Verification and Certification – Form 1148 and the System Administrator Verification and Certification – Form 1149, we have updated the department to which Seller/Serviceirs must submit these forms to Freddie Mac.
- We have removed Property Inspection Summary (Other Property Owned by Borrower) – Form 1114 from the Guide as it is no longer required for any Freddie Mac product.

We have revised Chapters 2, 8, 13, 14, 16, 43 and 55 and the underwriting checklists found in Exhibit 1 in support of these forms changes. The updated forms and checklists are available on AllRegs and FreddieMac.com.