

SUBJECTS

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

- Clarifying our requirements for the qualifications for a property condition consultant
- Making more extensive changes to requirements for the Seismic Risk Assessment (SRA) to better ensure that Properties with multiple buildings have adequate earthquake insurance coverage
- Revising our requirements for postpurchase reporting, including:
 - Indicating the requirements applicable only while a Mortgage is held by Freddie Mac
 - Revising the property inspection requirements for unit and building inspections, the identification of risk issues, assessment of the property management company and the assessment of changes to the neighborhood and submarket
 - Reserving the right to request the Seller/Servicer to submit to Freddie Mac additional information from the Borrower, each guarantor and each SPE Equity Owner
 - Modifying property inspector requirements
 - Changing the restrictions on the use of third-party fee inspector companies (FICs)
- Adding Handicap Accessibility Enhancements to the Operational Repair category
- For Transfers of Ownership, updating contact information for the delivery of documents and notices to Freddie Mac
- For Transfers of Servicing, updating the requirements for wiring the transfer processing fee
- Revising our requirements for reporting hazard losses and monitoring repairs
- Providing additional requirements for the Servicer when re-evaluating the adequacy of Replacement Reserves for a Mortgage with a loan term greater than 10 years
- Adding the list of documents that the Servicer must submit to Freddie Mac after approval of a change to property management, for Mortgages that are not SBL Mortgages
- Making changes to various forms, including extensive changes to Form 1115, which has been renamed the Borrower and Borrower Principal Certificate.

As a result of the publication of the Small Balance Loan (SBL) Addendum, we are also making the above changes to the corresponding chapters of the SBL Addendum.

Effective dates

The revisions announced by this Bulletin are effective immediately, except for the following:

- Seller/Servicers may begin using the new Borrower and Borrower Principal Certificate – Form 1115 immediately, and must use the revised form for all underwriting packages submitted on or after February 1, 2015

- Changes for the SRA apply to an SRA prepared by a consultant engaged after December 12, 2014.
- The clarified qualifications for a property condition consultant apply to consultants engaged after December 12, 2014.
- Changes to the inspector and inspection requirements are effective for all property inspections conducted on or after January 1, 2015.
- Changes to requirements for earthquake insurance apply to all new policies taken out and all existing policies renewed on or after January 1, 2015.

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,

David Brickman
Executive Vice President
Multifamily

Clarification to Qualifications for a Property Condition Consultant

In Section 14.8(b), we are rewording for greater clarity the requirement that a property condition consultant must have a degree in architecture or a related engineering field.

Seismic Risk Analysis Requirements

To better ensure adequate earthquake insurance coverage for Properties with multiple buildings and multiple building construction types, we are revising our requirements in Section 16.8 for seismic loss estimation for a Level 1 SRA. Where multiple building construction types are located on a Property, the consultant must provide the Scenario Expected Loss (SEL) for each building construction type. Examples of different building construction types include buildings with tuck-under parking vs. buildings without tuck-under parking, garden-style buildings vs. high-rise buildings, or linear buildings vs. L-shaped buildings.

The consultant must also provide the aggregate SEL for the entire Property, but this will not be used in determining the need for earthquake insurance or a seismic retrofit.

In addition, we are revising Section 16.13 to state that results from a Level 0 or Level 1 SRA must be evaluated as follows:

- If the Probable Maximum Loss (PML) is less than or equal to 20 percent for each building construction type on the Property, then earthquake insurance is not required.
- If the PML is greater than 20 percent but less than or equal to 40 percent for any building construction type on the Property, then Freddie Mac requires, at a minimum, earthquake insurance in accordance with Section 31.9 for the affected building(s).
- If the PML is greater than 40 percent for any building construction type on the Property, then the affected building(s) must undergo a seismic retrofit or the Mortgage is ineligible for sale to Freddie Mac.

As always, if a Level 1 SRA indicates that a Property is not expected to meet life safety and building stability performance standards as a result of the scenario losses considered, the Property must undergo a seismic retrofit to meet these performance levels before Freddie Mac will consider the Mortgage for purchase.

In addition to the changes to Sections 16.8 and 16.13, we are making related changes to the following Guide sections and forms:

- Section 8.14, to update the provisions regarding Mortgages ineligible for sale to Freddie Mac based on the PML
- Section 31.9(b), to align the requirements for earthquake insurance with Section 16.13
- Physical Risk Assessment – Form 1105, to update the Seismic Checklist in Part I
- Borrower Certification of Physical and Environmental Property Condition – Form 1117, to update the Certifications for Properties Located in Seismic Zones 3 or 4

Changes to Postpurchase Reporting

Requirements Applicable Only to Mortgages Held by Freddie Mac

We are revising Sections 40.2(a), 40.2(b), 40.3, 40.4, 40.5, 40.7 and 40.8 to clarify that the reporting requirements for the Annual Income and Expense Assessment (AIE), the Quarterly Income and Expense

Assessment (QIE), the Loan Management Form (LMF) and the Freddie Mac Annual Inspection Form (AIF) apply only during any period in which Freddie Mac holds a Mortgage.

In Section 40.2(b), we are revising the criteria for the submission of the LMF and AIF. We are removing the requirement that Servicers submit the LMF and AIF on an annual basis for a Mortgage with a Transfer of Ownership or subordinate financing, or a Mortgage with a filing of a tax lien. We are adding a requirement that the Servicer submit the LMF and AIF annually for a Mortgage held by Freddie Mac and subordinate to a securitized loan.

In addition, the requirements in Section 40.9 concerning late, incomplete or unacceptable reporting and in Section 40.10 concerning the review of General Loan Information (GLI) apply only during any period in which Freddie Mac holds a Mortgage. The Servicer must review the GLI for any Mortgage held by Freddie Mac no less than annually.

General Property Inspection Requirements

We are also making a number of changes to our requirements for property inspections. Section 40.6 now indicates whether the property inspection must be documented on the AIF (for Mortgages held by Freddie Mac) or on the MBA Property Inspection Form (for securitized loans). We've also updated the general description of the property inspection.

Unit Inspection Requirements

In Section 40.6(a) we are making changes to the unit inspection requirements. Instead of being required to inspect units in at least 50 percent of the buildings on a Property with numerous buildings, the inspector must now inspect units in a sampling of various buildings across the Property.

With respect to the minimum number of units to be inspected, the inspector must inspect at least

- Three percent of occupied units, with a minimum of three units and a maximum of 15
- 20 percent of vacant units, with a minimum of three units, and a maximum of 15

The requirements for the inspection of Down Units and commercial space remain unchanged at 100 percent. If there is a significant number of Down Units due to large renovation project, the inspector may choose to inspect a representative sampling. The inspector must inspect additional occupied and vacant units, as needed, to determine whether any problems detected in specific units or buildings are restricted to the specific units or buildings, or are pervasive throughout the Property.

Photographs

In Sections 40.6(b) and (c), we are adding a requirement that photographs must include views of any Down Units, items requiring significant capital expenditure, and any environmental concerns, such as moisture or Mold issues.

All photographs must

- Be compressed and submitted with the AIF or the MBA Property Inspection Form, as applicable
- Include identifying captions

Physical Condition of the Property and Identification of Risk Issues

We are making a number of changes to our requirements in Sections 40.6(d) and 40.6(e) concerning the assessment of the physical condition of the Property. In addition to current requirements, the Servicer must assess the trend of all major components of the Property, and include its assessments of

- Environmental issues and any moisture or Mold concerns
- Capital improvements made subsequent to the last inspection and/or plans for future capital improvements at the Property
- Status of Deferred Maintenance items from most recent prior inspection
- Any concerns expressed by the property manager regarding site and/or building components

The Servicer must estimate and report the cost to remediate any Deferred Maintenance, Life Safety Hazards, environmental issues, and moisture or Mold issues. If the estimated sum for remediation of all Deferred Maintenance items is greater than \$1,000, or if the property inspection identifies Life Safety Hazards, environmental issues, or moisture or Mold issues, the Servicer must notify the Borrower within 30 days following the inspection of the need to undertake corrective action.

The Servicer must follow up in a timely manner until each risk issue has been remediated or resolved. If the Borrower does not respond to the Servicer's notifications concerning significant Deferred Maintenance items, unremediated Life Safety Hazards, environmental issues, or moisture or Mold issues, the Servicer may consider obtaining a limited scope property condition report for the specified areas of concern. As always, the Servicer must take immediate action to require the Borrower to remediate Life Safety Hazards.

Property Management Company

In Section 40.6(f), we are revising our requirements for assessing the property management company. The Servicer must continue to review leasing status and concessions, the property management company's experience, and compliance with operations and maintenance (O&M) plans, Moisture Management Plans (MMP), lead-based paint (LBP) and income compliance reports for income-restricted Properties. In addition, the Servicer must now review

- The property manager's on-site staffing levels,
- Whether routine maintenance items are appropriately addressed, and
- The adequacy of management's response to any significant changes in market occupancy or market rental rates.

Changes to Submarket and Adjoining Land Uses

We are rewriting Section 40.6(g) concerning the assessment of the neighborhood, adjoining land uses and changes to the submarket. The inspector must now assess the Property's immediate neighborhood, including any details on specific ingress or egress issues at the Property. The inspector is responsible for

- Driving through the neighborhood, identifying trends and determining if there are changes to adjoining land uses,
- Identifying changes in nearby thoroughfares or major employers that could impact the performance of the Property, and
- Commenting on any new construction in the immediate area.

Completing and Submitting Inspection Documentation

We are revising Section 40.8 to require the Servicer to retain copies of the completed AIF or MBA Property Inspection Form, as applicable, and to include in the attachments to the inspection submission any correspondence with the Borrower regarding any identified risk issue.

Freddie Mac's Rights

Freddie Mac is reserving the right to request the Seller/Servicer to submit to us the following:

- Copies of all tax returns filed by the Borrower
- Other financial information or property management information
- With respect to each guarantor and each SPE Equity Owner, a certified balance sheet and a profit and loss statement

See Section 40.11 for additional details.

Changes to Inspector Requirements

We are revising and simplifying the property inspector requirements found in Section 40.12. We have eliminated the Experienced New Hire category, and have revised the description of an Industry Trained Inspector and a Certified Inspector. The description of an Exempt Inspector remains the same. Whether a particular type of inspector is eligible to inspect a Property is now based on the Mortgage's Risk Rating, the Mortgage's appearance on the CREFC Watchlist, and whether the Property securing the Mortgage has significant repairs or replacements.

See Sections 40.12(b) and 40.12(e) for a complete description of these changes.

Use of a Third-Party Fee Inspector Company

We are also simplifying the restrictions on using a third-party fee inspector company (FIC). FICs cannot be used to conduct an inspection for a Property securing a Mortgage that is held by Freddie Mac and has a Risk Rating greater than six. However, the Servicer may use an FIC that meets Freddie Mac's requirements and has no conflict of interest with the Borrower for other inspections.

The Servicer is responsible for working with FICs to ensure that inspectors have the qualifications described in Section 40.12, and the Servicer is ultimately responsible for the accuracy of the information included in the property inspection report. Freddie Mac recommends that the Servicer establish a quality control program to ensure that inspections completed by FIC inspectors comply with Freddie Mac requirements.

These changes can be found in Sections 40.12(d) and 40.13(a).

Transfers of Ownership

In Section 41.1(c), we are updating contact information for the delivery of documents and notices to Freddie Mac following a Transfer of Ownership in conjunction with the origination of a Supplemental Mortgage. The Servicer must notify *Multifamily Purchase* of the electronic delivery of notices to Freddie Mac via DMS, and must also deliver original documents to *Multifamily Purchase*.

Transfers of Servicing

In Section 42.3(b), we are updating the requirements for wiring the transfer processing fee. The Servicer must obtain wire transfer instructions from *Customer Compliance Management*. The wire transfer must reference the Seller/Servicer name, the Seller/Servicer number and the Freddie Mac contact person.

Changes to Operational Repairs

We are adding Handicap Accessibility Enhancements to the list of repairs and replacements that make up the Operational Repairs category. Handicap Accessibility Enhancements apply to properties built prior to the enactment of the Fair Housing Act and the Americans with Disabilities Act, and are defined as repairs and/or renovations that pursuant to the applicable federal, State and local laws, statutes, and regulations are "readily achievable" and/or qualify as "reasonable accommodations" which will increase accessibility for disabled tenants and visitors to the property in accordance with the applicable laws, statutes and regulations.

To reflect this change, we have revised Section 14.3(b) and the Physical Risk Assessment – Form 1105.

Reporting Hazard Losses and Monitoring Repairs

We are revising our requirements for hazard loss notification and the monitoring of repairs. We are now requiring the Servicer to initiate a transaction request in the Consent Request Tracker (CRT) and obtain our approval of the Servicer's recommendations if any of the conditions listed below exists at or following the date of the loss:

- The Mortgage is in default
- The amount of the loss or damage exceeds, or is expected to exceed, the lesser of 20 percent of the UPB or \$5 million
- The Mortgage has a Risk Rating greater than six
- The insurance coverage is insufficient to cover the loss to the Property or the loss of rents/business income

If none of the above conditions exist at or following the date of the loss, the Servicer must direct the resolution of the loss and will not be required to initiate a transaction request in the CRT.

Following a casualty loss, if Freddie Mac approval of disbursements is not required, the Servicer is not required to complete or submit the Form 1140-DR.

We have made more extensive changes to our requirements for providing notice of completion and restoration of the Property. The Servicer must use its judgment in determining whether all loss or damage has been resolved or repaired. The Servicer may take the following actions to ensure that full remediation has taken place:

- Employing a qualified inspector or physical engineer to inspect the repairs or restoration
- Obtaining waivers or releases of liens from all contractors and suppliers supplying labor or materials for the repairs and restorations
- Requiring written confirmation from the Borrower that all repairs have been completed in a workmanlike manner and that the work is free and clear of any and all liens, claims and encumbrances

Within 30 days after the Servicer determines and documents that full remediation has occurred, the Servicer must notify Freddie Mac. If the Servicer reports closure of the item in any other report to Freddie Mac, the Servicer is held to the same standard regarding ensuring full remediation of the loss or damage.

We have revised Sections 43.8(a), 43.8(d) and 43.8(f) to accommodate these changes.

Re-evaluating the Adequacy of Replacement Reserves for a Mortgage with Loan Term Over 10 Years

We are revising Section 39.5(f) to require the Servicer to take one of the following actions if the Loan Documents permit the lender to adjust the Replacement Reserve amount for Mortgage with a term longer than 10 years:

- Obtain an updated property condition report, if the Loan Documents authorize the lender to obtain a property condition report at the Borrower's expense
- Conduct a property inspection, if the Loan Documents do not contain a provision authorizing the lender to obtain a property condition report at the Borrower's expense

The property inspection must be conducted in accordance with the requirements in Chapter 40 for an annual inspection, and the Servicer must not engage a third-party fee inspector company (FIC) to conduct the inspection.

Property Management Changes

With respect to the documentation required following an approved property management change for a Mortgage that is not a Small Balance Loan (SBL) Mortgage, we are revising Section 43.19(d) to require the Servicer to submit to Freddie Mac the executed property management agreement in the form approved by Freddie Mac, the Assignment of Management Agreement, and any other documents specified in the approval letter.

For SBL Mortgages, we will continue to specify in the approval letter the documents that are to be submitted to Freddie Mac.

Miscellaneous Form Changes

Sections 3.8(a), 11.2(b), 11.3(a), 28.12(q), 28.18(a), 42.2(d), 42.3(a), 42.3(b), 41.3(c), 42.5(a), 51.1(b) and 55.2 are being revised to accommodate the forms changes described below.

Guide Forms Update

We are making changes to the following Guide forms, which can be found on AllRegs and FreddieMac.com:

- We have revised Form 1115 and renamed it the Borrower and Borrower Principal Certificate. We have eliminated any distinction between CME and Non-CME loans and have divided the questions so that there is a set of questions to be answered by the Borrower and a set to be answered by the Borrower Principal. We have simplified the form and removed unused information. We have also provided additional questions to be answered regarding litigation and judgments to clarify the type of litigation and judgments about which we may have a concern. We've revised the title of the form to reflect the fact that a separate form must be completed by the Borrower and each Borrower Principal.

- We have revised the Environmental Site Assessment – Form 1103 to update the logo.
- We have revised the Physical Condition Assessment – Form 1105 to update the Seismic Checklist to align it with Guide provisions, to reflect the addition of Handicap Accessibility Enhancements to the Operational Repair Category and to update the logo.
- We have revised the Borrower Certification of Physical and Environmental Property Condition – Form 1117 to update the Certifications for Properties Located in Seismic Zones 3 or 4.
- We have changed the title of the Form 981M to the Transfer of Servicing Agreement to reflect the fact that it is used for all Transfers of Servicing, and have also revised this form to indicate that we will accept payment of the transfer processing fee by wire transfer only.

Non-Guide Forms Update

We are adding references in the Guide to the Counterparty Approval Request, which must be submitted to Freddie Mac if the issuer of a letter of credit is not found on the Approved Counterparties List.

We are changing the name of the following non-Guide forms that are referenced in the Guide:

- Cap Escrow Adjustment Request (formerly the Freddie Mac Cap Escrow Adjustment Request for Approval Form)
- Loan Payoff Notice (formerly the Multifamily Loan Accounting Loan Payoff Notice Form)

All non-Guide forms can be found on FreddieMac.com.