



Bulletin

NUMBER: M2016-10

TO: Freddie Mac Multifamily Sellers and Servicers

December 15, 2016

SUBJECTS

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

- Revising Borrower/Borrower Principal Due Diligence requirements, and updating Forms 1115 and 1115-SBL
- Announcing upcoming automation of our Counterparty Annual Certification process
- Changing the Mortgage term requirement for Supplemental Mortgages
- Revising our cap fee Reserve provisions in the Guide for both cash and Bond Credit Enhancement Mortgages
- Updating our seismic risk assessment requirements as follows:
 - Introducing Form 1102, Seismic Risk Assessment Summary, for all Mortgages
 - Discontinuing use of the term Probable Maximum Loss (PML)
 - Clarifying the actions a Seller/Servicer must take to discontinue earthquake insurance coverage after a Property has undergone seismic retrofit
 - Specifying the Reserve that a Borrower must fund if an SBL Property will undergo seismic retrofit
- Updating and clarifying our requirements for environmental assessments, including the addition of a new section to Form 1103, Environmental Site Assessment
- Revising our requirements for the appraiser's inspection of commercial spaces, and removing references to Form 439, Statement of Limiting Conditions and Appraiser's Certification, which is no longer required
- Making a minor update to our language regarding aluminum wiring, and clarifying our use of the term wood-damaging insects
- Clarifying a requirement for the pre-construction analysis report for a Forward Commitment
- Updating the Servicing Spreads for Seniors Housing Mortgages to align them with the Servicing Spreads applicable to conventional cash Mortgages

Effective dates

Revisions to our due diligence requirements and the required use of revised Forms 1115 and 1115-SBL are effective with underwriting packages submitted on, or after, January 1, 2017. All other 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. If you have any questions about this Bulletin, please call your Freddie Mac representative.

Sincerely,

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Borrower/Borrower Principal Due Diligence Requirements and Forms 1115 and 1115-SBL

After receiving valuable feedback from internal and external business partners, we have made some modifications to our Borrower due diligence requirements. The following requirements will become effective with underwriting packages submitted on or after January 1, 2017:

- Borrowers and Borrower Principals will now have up to 60 days after the date of submission of the preliminary underwriting package for the early rate-lock delivery option, or the full underwriting package for the standard delivery option, to date and submit the Form 1115, Borrower and Borrower Principal Certificate or the Form 1115-SBL, Borrower and Borrower Principal Certificate – SBL.
- We are simplifying our definition of a Pass-through Entity for the purposes of Forms 1115 and 1115SBL; Form 1116, Real Estate Schedule; and the financial reports of the Borrower and Borrower Principals that are submitted as part of the underwriting package and/or prescreen package to Freddie Mac.
- As instances of crowdfunding become more prevalent, we are requiring any Borrower Principal or the owners of any direct or indirect non-controlling interests in the Borrower equal to or exceeding 25 percent in the aggregate, to declare if they have received funding, in whole or in part, raised via any general solicitation of investors or via the sale of investments to unaccredited investors in a public offering (e.g., under the related exemptions provided by Title III or Title IV of the JOBS Act).

Section 55.2, the Glossary, Form 1115, Form 1115-SBL and Form 1116 have been revised to reflect these changes.

Counterparty Annual Certification Process

We are announcing our intention to roll out, in early 2017, an automated Multifamily Eligibility System, which will automate the annual Counterparty Certification process. We have developed a customer-facing interface to simplify our counterparty's submission of their Annual Certification forms and supporting documentation. Freddie Mac will officially release the new automated system in early February, 2017 and will announce the official release with a Guide Bulletin.

To afford our Seller/Servicers time to preview and prepare for the information they will be required to submit in 2017, today we are posting, on AllRegs and on FreddieMac.com, preliminary versions of the following forms in PDF format:

- Form 16M, Multifamily Annual Certification Report
- Form 17M, Multifamily Annual Certification Report – Structured Transaction & Tax-Exempt Bond Seller/Servicers Only
- Form 1110M, Multifamily Annual Certification Report – Servicer Only

Term of a Supplemental Mortgage

In Section 20.3(c), we are requiring the term of a Supplemental Mortgage to be coterminous with the remaining term of the First Mortgage. Previously, the term of the Supplemental Mortgage could exceed the term of the First Mortgage by up to 24 months.

Cap Fee Reserves

We are revising the Guide to describe a process improvement for cap fee Reserves in which Kensington Capital Advisors serves as the third-party vendor who will work with Servicers to:

- Provide pricing for replacement caps
- Calculate the monthly cap fee Reserve payments by utilizing the new Kensington Cap Escrow Adjustment Form

These changes can be found in Section 28.18 for Bond Credit Enhancement Mortgages and in Section 43.22 for cash Mortgages. The new Kensington Cap Escrow Adjustment Form is accessible from the asset management page of FreddieMac.com and under the Non-Guide Forms tab on the Guide page of FreddieMac.com.

Seismic Risk Assessment Updates

Form 1102, Seismic Risk Assessment Summary and Discontinuation of PML

For both SBL and non-SBL Mortgages, we are introducing new Form 1102, Seismic Risk Assessment Summary, which must be included as part of the seismic risk documentation in the underwriting package when a Level 1 Seismic Risk Assessment (Level 1 SRA) is required. The completed Form 1102 will summarize for the Freddie Mac underwriter information on the PGA determination, any deviations from the Field Assessor's required qualifications, building stability concerns, and the Scenario Expected Loss (SEL) for the Property, thus helping to streamline the underwriting process.

On Form 1102, the seismic risk consultant must provide a single SEL-475 (the SEL determined using a 475-year return period earthquake) for Properties with a single construction type. For Properties with multiple building types, the seismic risk consultant must provide a brief description of each building type and its corresponding SEL-475. However, the consultant is no longer required to provide the aggregate SEL-475 for the entire Property.

We have eliminated the use of the term Probable Maximum Loss (PML), which has been replaced by SEL-475.

To reflect these changes, we have added new Sections 16.11 and 16SBL.11 that contain additional information about completing Form 1102, which is available on FreddieMac.com and AllRegs. We have also revised Sections 16.1, 16.5, 16.8, 16.9, 16.14, 16SBL.1, 16SBL.5, 16SBL.8, 16SBL.9, 16SBL.14, 31.9 and the entry for seismic risk documentation in Section 55.2. We have revised the interactive underwriting checklist tool on FreddieMac.com to include references to Form 1102.

Seismic Retrofit and Earthquake Insurance Changes

For Properties with no building stability concerns and a SEL-475 greater than 20 percent but less than or equal to 40 percent, earthquake insurance is required. The Borrower may opt to have the Property undergo a seismic retrofit. If, after the retrofit is completed, the SEL-475 for the Property is less than 20 percent, earthquake insurance is no longer required and the Borrower may request Freddie Mac approval to discontinue the earthquake coverage. We have revised the Guide to indicate the steps the

Seller/Servicer must take to request discontinuation and the documentation necessary to confirm that the SEL-475 is less than 20 percent.

SBL Borrowers must establish a Reserve of at least 125 percent of the estimated cost to make the seismic retrofit modifications, and the retrofit must be completed within 12 months after the Origination Date.

Freddie Mac, at its discretion, may consider the purchase of Mortgages secured by Properties with building stability concerns and a SEL-475 of less than 40 percent. As specified in Sections 16.9 and 16SBL.9, Freddie Mac requires that building stability be evaluated in accordance with ASTM Standard Guide E2026-16a, using the earthquake ground motion prescribed in the current edition of the International Building Code or other nationally applicable building code. Any building stability concerns must be highlighted in Form 1102.

These changes can be found in Sections 16.14, 16SBL.14, and 31.9(b).

Updates to Environmental Requirements for Non-SBL Mortgages

We are clarifying that the findings and results portion of the environmental report must specifically note any regulatory compliance conditions, and advise if the findings are likely to create clean-up liability for the Property owner, or health and safety concerns for the tenants.

We are also making the following changes:

- Cost requirements to develop O&M programs are no longer required
- The long-term alpha-track test to measure radon concentrations is required to have a duration of at least 91 days, rather than two months
- On Form 1103, Environmental Site Assessment, we are
 - Moving the list of units inspected and the consultant's certification to Section III
 - Removing the O&M Cost column in the table on the bottom half of the first page

These changes can be found in Section 13.3(c), 13.3(d), 13.6(c), 13.15(c), 13.15(e), 13.17, 13.17(a), and 13.17(c). Form 1103, Environmental Site Assessment, is available on AllRegs and FreddieMac.com.

Appraisal Requirements

With respect to the appraisal of commercial spaces, we are requiring:

- The Seller/Servicer to provide the appraiser with an accounting of the Property's unit inventory, including commercial space, prior to submission of the Appraisal to Freddie Mac
- The appraiser to inspect commercial spaces, with the number of spaces to be inspected at the appraiser's discretion

We are also removing references to Form 439, Statement of Limiting Conditions and Appraiser's Certification. This form is no longer in use.

These changes can be found in Sections 12.5, 12.6, 12.12(b), and 12.20.

Property Condition Requirements

We have made minor updates and clarifications to our requirements for evaluating the condition of a Property.

We have updated our language regarding aluminum wiring to require all branch wiring terminations to have safe, code-compliant connections that are rated to accept aluminum wiring; otherwise, corrective, code-compliant repairs must be made before the Origination Date. See Section 14.5(c) or 14SBL.5(c), as applicable.

In addition, for the purposes of the Guide, we are clarifying that the term wood-damaging insects is intended to refer to insects such as termites, powderpost beetles and carpenter ants. This change can be found in Sections 5.3(a), 8.2(e), 14.5(e), 14SBL.5(e), 15.6(a), 22.2(m), and 55.2.

Pre-construction Analysis Report for a Forward Commitment

With respect to the pre-construction analysis report, we are clarifying that the Architectural Consultant must provide an independent assessment of any construction that has commenced prior to the Origination Date.

This change can be found in Section 15.6(b).

Servicing Spread for Seniors Housing Mortgages

We have updated Section 21.5(h) to reflect the fact that Servicing Spreads for Seniors Housing Mortgages are the same as the Servicing Spreads for conventional cash Mortgages. This change was announced in an email to Seller/Serviceers on November 1, 2016.