



Bulletin

NUMBER: M2018-1

TO: Freddie Mac Multifamily Sellers and Servicers

February 28, 2018

SUBJECTS

In the February 28, 2018 Guide Bulletin, we are:

- Updating the requirements for SBL Mortgages
- Revising the underwriting requirements for Targeted Affordable Housing (TAH) Mortgages with subordinate debt
- With respect to a Property eligible for sale to Freddie Mac, prohibiting a Borrower's participation in home sharing activities
- Updating and clarifying our requirements for fraud prevention, detection and reporting; including a new Multifamily mailbox for reporting purposes
- Announcing changes to the Multifamily Annual Certification process, including Form 16M, Multifamily Annual Certification Report; Form 17M, Multifamily Annual Certification Report – Structured Transaction & Tax-Exempt Bond Seller/Servicers; and Form 1110M, Multifamily Annual Certification Report – Servicer Only
- Requiring a Replacement Reserve analysis to be prepared on Form 1108, Physical Risk Report, and other minor revisions to Form 1108
- Revising the following additional forms:
 - Form 1104, SBL Physical Risk Report
 - Form 1106, Green Report
 - Form 1116, Real Estate Schedule
- Updating Exhibit 1: Section 1.1, the Conventional Underwriting Checklist, to clarify the timing of delivery of Form 1116 for early rate-lock Mortgages
- Revising requirements for a Borrower that is a Single Member Limited Liability Company for certain Mortgages
- Revising our general Seller/Servicer representations and warranties
- Revising our requirements for the adjustment of cap fee Reserve payments
- Updating requirements for the submission of documents following a property management change
- Clarifying the following provisions:
 - Appraiser certifications regarding aluminum wiring
 - Requirements for analyzing electrical capacity
 - Whether a Moisture Management Plan (MMP) is automatically required
 - The types of third party consultants permitted to perform periodic site inspections
 - Qualifications for property condition consultants and physical risk assessment consultants

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. If you have any questions about this Bulletin, please call your Freddie Mac representative.

Sincerely,

Deborah Jenkins
Senior Vice President
Multifamily Underwriting and Credit

Leanne Spies
Senior Vice President
Multifamily Asset Management and Operations

Requirements for SBL Mortgages

We're making the following changes to our requirements for SBL Mortgages:

- We are clarifying that an SBL Mortgage must have a principal balance between \$1 million and \$7.5 million, and that an SBL Mortgage with a principal balance greater than \$6 million may have additional due diligence requirements, unit restrictions and market availability limitations
- We are specifying that a Moisture Management Plan (MMP) is no longer automatically required for an SBL Mortgage; instead, an MMP is only required if the physical risk consultant determines that an MMP is needed.
- To align with current business practice, we're updating our requirements to indicate that a zoning report is not required for an SBL Mortgage with an initial principal balance of \$6 million or less.
- For an SBL Mortgage with an initial principal balance greater than \$6 million, we are not requiring a zoning report if the Appraisal includes additional zoning analysis and other conditions are met.
- We're changing the requirements for Reserves as follows:
 - Eliminating the requirement to prove that real estate taxes and insurance premiums have been paid as a condition for deferring Reserves for real estate taxes and insurance premiums.
 - Permitting monthly Replacement Reserve deposits to be deferred at the discretion of Freddie Mac based on information from the SBL Physical Risk Report or the site inspection.
- For any SBL Mortgage with an initial principal balance greater than \$6 million, we're specifying that the Seller must deliver either a current survey or must satisfy one of the waiver alternatives in the Survey Waiver Requirements document, available on FreddieMac.com.

These changes can be found in Sections 8SBL.3(a), 8SBL.3(b), 8SBL.5, 18SBL.1(a), 18.SBL.2, 29SBL.5, and 60.12(g). We have also updated Exhibit 1: Section 1.2, the SBL Underwriting Checklist, to reference Chapter 8SBL with regard to submitting zoning or building code conformity documentation. Seller/Servicers should familiarize themselves with the conditions that must be satisfied to obtain relief from providing a zoning report for a Mortgage with an initial principal balance greater than \$6 million.

Underwriting Requirements for TAH Mortgages with Subordinate Debt

We're making the following changes pertaining to subordinate debt:

- Updating the definitions for hard subordinate debt and soft subordinate debt
- Adding definitions for Governmental Entities and Nonprofit Entities in the Guide Glossary
- Specifying a minimum combined amortizing DCR for both hard subordinate debt and soft subordinate debt
- For hard subordinate debt, varying the maximum combined LTV based on whether the subordinate lender is a Governmental Entity or a Nonprofit Entity
- For a TAH Mortgage originated under the Cash Mortgage Purchase Program, unpaid interest may accrue on a simple interest basis; for a TAH Mortgage originated under the TAH Bond Credit Enhancement Program, unpaid interest may accrue on a simple interest or compounding basis at Freddie Mac's discretion

Complete requirements can be found in Sections 19.2(f) and 28.2(e). We have also added definitions for a Governmental Entity and a Nonprofit Entity to the Glossary.

Prohibition Against Home Sharing Activities

With respect to a Property eligible for sale to Freddie Mac, Freddie Mac is prohibiting the Borrower from participating in home sharing activities, which we are defining as short-term rentals or leases of residential units to tenants that the Borrower knows or should know will use the units for full or part-time home sharing activities. Such home sharing activities are typically marketed through a peer-to-peer online marketplace or a home sharing platform such as Airbnb, VRBO, and booking.com.

This change can be found in Sections 8.2(a) and 8SBL.2(a). Freddie Mac may consider future changes to this restriction as the home sharing industry evolves and matures.

Fraud Prevention, Detection, Investigation and Reporting

We are revising our requirements addressing fraud and Suspicious Activity as follows:

- Clarifying that Seller/Servicers must have practices and procedures to prevent, detect and report potential fraud and Suspicious Activity
- Requiring that employees of the Seller/Servicer, and entities or individuals engaged to perform activities typically handled by employees, receive training in potential money laundering and terrorist financing schemes
- Updating the list of unusual patterns or “red flags” to include a sudden drop in operating income or occupancy, or a sudden increase in expenses after origination or Supplemental loan funding
- Adding suspected money laundering and terrorist financing to the list of items that must be reported to Freddie Mac
- Including a new Multifamily mailbox for reporting potential fraud and Suspicious Activity ([MF Mortgage Fraud Reporting@freddiemac.com](mailto:MF_Mortgage_Fraud_Reporting@freddiemac.com))

These changes can be found in Sections 7.1, 7.1(a), 7.1(b), 7.2(a) and 7.2(b). The title of Chapter 7 has been updated to indicate that Freddie Mac Seller/Servicers must report both fraud and Suspicious Activity.

Annual Certification; Forms 16M, 17M, and 1110M

We are announcing that the Freddie Mac automated Multifamily Eligibility System (MES) has been updated to reflect our 2018 requirements. Seller/Servicers use the MES system to prepare and submit the following forms:

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

In conjunction with the fraud and Suspicious Activity changes described above, we have updated the MES to collect, as part of the Annual Certification process, information regarding Seller/Servicers’ compliance with our requirements to safeguard against and report fraud and Suspicious Activity. In addition to requesting that Seller/Servicers report their efforts regarding fraud and Suspicious Activity, we have revised MES to request the contact information for Seller/Servicer’s Chief Compliance Officer and the person responsible for Seller/Servicer’s Certificates of Incumbency.

Seller/Service providers must submit the appropriate annual certification within 90 days after the end of the Seller/Service provider's fiscal year.

Replacement Reserve Analysis Required on Form 1108, Physical Risk Report

We are now requiring the physical risk consultant to prepare a Replacement Reserve analysis for all Mortgages using Form 1108, Physical Risk Report. The consultant must:

- Identify the items needing repair or replacement that are beyond the scope of regular maintenance
- Provide an assessment of the Property that projects the need for replacements and repairs for the term of the Mortgage plus two years, to a maximum of 12 years
- Identify and quantify the needs and annual costs after accounting for inflation

The analysis for Seniors Housing Mortgages and Manufactured Housing Communities (MHC) Mortgages must follow the requirements in Sections 21.16(e) and 22.2(i), respectively. Freddie Mac will review the consultant's assessment and determine the actual Replacement Reserve amount.

On Form 1108, we have also restricted access for Mac users and highlighted the "Date of Visit field" to emphasize its importance. The Date of Visit affects the function of Section IV of the form.

These changes can be found in Sections 62.6(d) and 66.3(c), and in Form 1108, Physical Risk Report. The revised Form 1108 has been posted on FreddieMac.com and must be used immediately, regardless of the engagement date with the consultant.

Additional Forms Changes

Form 1104, SBL Physical Risk Report

Form 1104 is being updated to align with current policy. Section IV now addresses Mold issues, instead of Section III, and the check box options for Mold have been updated. The new form is available on FreddieMac.com.

Form 1106, Green Report

We are updating Form 1106, Green Report, to coordinate with the Green Advantage[®] changes announced in the December 14, 2017 Guide Bulletin and to make additional minor changes. The updated Form 1106 (Version 3.0) has been posted on FreddieMac.com, and must be used for all transactions that go under application as of the date of this Guide Bulletin. The changes are as follows:

- Section I: Combined the "other rate systems" option with the RUBS system, changed the RUBS data to a text box description field, provided clarification on how RUBS information should be entered, and streamlined data entry of utilities with the form converting all energy units into kBtu
- Section II: Clarified that only permanent structures need be described in the "other buildings" section
- Section VIII: Updated this Section to provide an easier way for consultants to enter savings measures
- Summary section: Added a summation line for easier review and analysis
- Miscellaneous housekeeping changes

Form 1116, Real Estate Schedule

We have revised Form 1116, Real Estate Schedule, to relieve Borrowers and Borrower Principals of the requirement to list involvement with non-real estate related businesses or activities. We continue to require Borrowers and Borrower Principals to list all income producing real estate and to certify that the list includes any real estate activity expected to produce a net negative cash flow over the next 12 months.

Exhibit 1, Underwriting Checklist

We are revising Exhibit 1, Section 1.1, Conventional Checklist, Part B to restore a line requiring submission of Form 1116, Real Estate Schedule with the full underwriting package if Form 1116 has not been submitted with the preliminary underwriting package.

Form 1116 may be submitted with the preliminary underwriting package for early rate-lock Mortgages, or with the full underwriting package for a Mortgage utilizing either the standard delivery option or the early rate-lock option; regardless, Form 1116 must be dated within 180 days of the date of submission of the full underwriting package.

Borrower Requirements – Single Member Limited Liability Companies

In addition to clarifying and reorganizing the requirements in Section 9.2(e), for a Mod Rehab Mortgage or a Forward Commitment Mortgage with an initial principal balance of \$15 million or less, we are no longer requiring a Borrower that is a single member limited liability company to be formed in Delaware and to meet the requirements for a “springing member”.

Representations and Warranties

We are revising our general Seller/Servicer representations and warranties to

- Ensure that the appropriate representations and warranties apply to both Sellers, as of the Freddie Mac Funding Date, and Servicers, as of the date of any Transfer of Ownership
- Require Servicers to confirm that any new management company is not the target of any sanctions law administered or enforced by the U.S. Department of the Treasury’s Office of Foreign Assets Control (OFAC)
- Require the Servicer, in connection with its review of a Transfer of Ownership, to check the most current FHFA SCP List for the names of the Borrower, Borrower Principals, and any new management company
- Require Sellers and Servicers to keep a complete and accurate copy of each document required to be delivered to Freddie Mac in hardcopy form or electronic form

With respect to the retention of documents, Freddie Mac does not require Seller/Servicers to retain originals of documents that must be delivered electronically. Instead, each Seller/Servicer should consult its counsel and document retention policies with respect to the retention of original documents.

These changes can be found in Sections 5.2(a)-(o), 5.4 and 5.4(b). We have also updated the definitions for the terms Loan Documents and Purchase and Servicing Documents in the Glossary to add references to Servicing documents and Servicing transaction approvals.

Cap Fee Reserves

With respect to adjustments for cap fee Reserve payments, we are eliminating the requirement that a Servicer must submit the first scheduled adjustment to the cap fee Reserve received from Kensington Capital Advisors LLC to Freddie Mac for prior approval.

We have revised Sections 28.18(a) and 43.22(a) to reflect this change. The Kensington Cap Escrow Adjustment Form, available on FreddieMac.com, has been revised to remove the Freddie Mac signature block.

Submitting Documents Following an Approved Property Management Change

In Section 43.19(e), we are clarifying that the following documents must be delivered to Freddie Mac after an approved property management change:

- For non-SBL Mortgages, the Servicer must electronically deliver a copy of the property management agreement and a copy of the executed Assignment of Management Agreement.
- For all Mortgages, the Servicer must electronically deliver any documents specified in the approval letter.

Clarifications

We are revising the Guide to clarify the following:

- In Section 8.2(d), that the Seller/Servicer must obtain a certification from the appraiser regarding a Property's aluminum wiring, only if required by Freddie Mac
- In Section 62.5(c), that the electrical load calculation must be based on the most current guidelines described in National Electric Code (NEC) Article 220, Sections I-III
- In Section 62.5(d), that an MMP is not automatically required
- In Section 63.4(b), that either the Architectural Consultant or the property condition consultant must make periodic site visits to the Property to evaluate the construction progress
- In Sections 62.8(b), 62SBL.17(b) and 66.18(b), that, in addition to existing qualifications, the consultant performing a property inspection and preparing a property condition report or a physical risk report must have a bachelor's degree or graduate degree in architecture or a related engineering field