



# Bulletin

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**NUMBER: M2018-2**

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**TO:** Freddie Mac Multifamily Sellers and Servicers

April 27, 2018

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## **SUBJECTS**

In the April 27, 2018 Guide Bulletin, we are:

- Revising our requirements regarding the required remaining ground lease term for ground lease Mortgages
- Updating our minimum rating requirements for eligible depositories, to align more closely with our Pooling and Servicing Agreements
- Clarifying that there is no preset minimum combined DCR requirement for TAH Mortgages with third-party soft subordinate debt
- Modifying our position regarding the acceptable date of a rent roll submitted with the Annual Inspection Forms via the Property Reporting System
- Updating our procedures for requesting that earthquake coverage be reduced or discontinued when seismic risk changes have taken place after we have purchased a Mortgage
- Updating our provisions regarding documentation required following a change in property management
- Removing language regarding exceptions to the Minimum Origination Fee
- For a Forward Commitment, removing the requirement that an Architectural Consultant obtain and review the final project cost certification
- Clarifying our guarantor requirements for SBL Mortgages
- Updating our requirements for evaluating private wells and waste treatment systems
- Changing the timeline for submitting the Mid-Year Rent Schedule for certain SBL Mortgages
- Making minor modifications to our system administrator responsibilities
- Removing unnecessary references to the Annual Income and Expense Assessment and Detailed Quarterly Income and Expense Assessment
- Miscellaneous Forms 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. 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

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## Requirements for Ground Lease Mortgages

We are making the following changes regarding the required remaining ground lease term for ground lease Mortgages:

- For self-amortizing Mortgages, the remaining term of the ground lease plus any renewal options must extend beyond the maturity date of the ground lease Mortgage by at least 10 years, and
- For partially amortizing ground lease Mortgages, the remaining term of the ground lease plus any renewal options must be at least equal to the amortization period of the ground lease Mortgage plus any interest-only period, but in no case, less than 20 years beyond the maturity date of the ground lease Mortgage.

We are also indicating that renewal options that are at the sole discretion of the ground lessor, may not be considered for purposes of satisfying the ground lease term requirements. These changes can be found in Section 30.2.

## Minimum rating requirements for an eligible depository

We are updating our minimum rating requirements for eligible depositories to align more closely with our Pooling and Servicing Agreements (PSAs). An FDIC-depository must satisfy stated minimum requirements for at least two acceptable rating services for both long- and short-term senior unsecured debt obligation ratings or deposit ratings to be considered an eligible depository. See Section 52.2(a) for complete requirements, including a listing of our acceptable rating services and their minimum ratings thresholds.

## Underwriting requirements for TAH Mortgages with third-party soft subordinate debt

We are clarifying that there is no preset minimum combined DCR or maximum combined LTV for TAH Mortgages or TAH Bond Credit Enhancement Mortgages with third-party soft subordinate debt. Complete requirements can be found in Sections 19.2(f) and 28.2(e).

## Currency of a rent roll when submitting the Annual Inspection Forms

We are modifying our position regarding the acceptable date of a rent roll submitted with the Annual Inspection Forms (AIF) via the Property Reporting System (PRS). A rent roll will now be considered current if it is dated no more than two months prior to, or after, the inspection date. For example, if the Property was inspected on May 10, the rent roll is considered current if dated from March 10 through July 10. This change can be found in Section 40.9.

## Discontinuation of Earthquake Insurance for Mortgages that are not yet included in a Securitization

We are changing our procedures for requesting and obtaining notification from us that earthquake coverage may be reduced or discontinued. Servicers will now submit documentation regarding seismic risk changes that have taken place after our purchase of a Mortgage via the Property Reporting System (PRS). Section 31.9 has been modified to require that Servicers submit updated PGA calculation documentation and, after a seismic retrofit, SRAs, to us via PRS.

We will review the SRA and close the Loan Item Tracking entry if the SRA confirms that the SEL - 475 is less than or equal to 20 percent. Closure of the Loan Item Tracking entry for the SRA will be notification to the Seller/Servicer that earthquake coverage can be discontinued.

Section 31.9 applies to Mortgages that we have purchased but that have not yet been included in a Securitization.

#### Minimum Origination Fee

We are revising Sections 17.1(f), 18SBL.1(f) and the Glossary to remove language regarding exceptions to the Minimum Origination Fee.

#### Architectural Consultant review of audited cost certifications

For a Forward Commitment, we are removing from Section 63.5(a) the requirement that an Architectural Consultant obtain and review the audited project cost certification.

#### Documentation required upon a change in property management

If Freddie Mac review of a property management change is required, Servicers must now obtain, and submit to Freddie Mac certification from the Borrower that the management agreement does not include terms that are not customary in the market area in which the Property is located. Section 43.19(c) has been updated in support of this change.

We are also revising Section 43.19(e) to include a provision related to delivery of non-consolidation opinions obtained in connection with a property management change. If the opinion is required, the Servicer must electronically deliver this opinion to *Freddie Mac Multifamily Asset Management, Borrower Transactions* along with any other documents specified in the approval letter within the time specified in the approval letter.

#### Clarifying guarantor requirements for an SBL Mortgage

We are revising Section 9SBL.2(d) to clarify requirements regarding the net worth and liquidity of a guarantor for an SBL Mortgage.

#### Evaluation of private wells and private wastewater treatment systems

We are updating our requirements for evaluating private wells and waste treatment systems and have moved the location of these requirements from Chapter 22, Originating a Mortgage under the Multifamily Manufactured Housing Community Product, to Chapter 62, Property Condition Report. These requirements now apply to any non-SBL property with a private well or private wastewater treatment system.

The Form 1108, *Physical Risk Report* and Sections 22.6(b)(1) and 62.5(c) are being modified in support of this change.

## Mid-Year Rent Schedule

For SBL Mortgages originated on a Loan Agreement form with a revision date on or after 11/08/2016, we are requiring Servicers to submit the Mid-Year Rent Schedule via PRS by August 31 each year. For the PRS submission to be complete, the Servicer must also enter the following data: (1) the effective date of the rent schedule, (2) the physical occupancy rate, and (3) the total actual rent. Sections 40.2(a)(3), 40.2(b), 40.5(a) and 40.5(b) have been revised to effect this change.

## System administrator responsibilities and other housekeeping changes

We are renaming and updating the Form 1146 – *System Administrator Request/Deactivation Form* to Form 1146 – *System Administrator Add/Update/Remove Request Form* to simplify the request process.

We are also clarifying the system administrator’s role regarding access to Multifamily Software Applications by vendors for the Seller/Servicer, adding the Consent Request Tracker (CRT) to our list of Multifamily Software Applications, standardizing the names of listed applications and updating email addresses for various submissions or inquiries.

Sections 2.12(a), 2.13(a), 2.13(b), 2.13(c) and 2.13(d) have been updated in support of these changes.

## Removing remaining references to the AIE and QIE

We are updating Sections 40.2(a), 40.3(b), 40.3(c), 40.4(b) and 40.16(c) to remove unnecessary references to the Annual Income and Expense Assessment (AIE) and Detailed Quarterly Income and Expense Assessment (QIE).

## Miscellaneous Form Changes

- We are adding questions related to Manufactured Housing Community Mortgages to the Form 1108 – *Physical Risk Report*.
- We are updating Form 1106, *Green Report* – to allow a “Print All to PDF” option on each page.
- We are fixing an error in the Form 1104 – *SBL Physical Risk Report* to allow code violations details to be properly displayed. Seller/Servicers should discontinue use of earlier versions of the Form, and begin to use the revised Form 1104 immediately.