



Bulletin

NUMBER: M2018-4

TO: Freddie Mac Multifamily Sellers and Servicers

September 28, 2018

SUBJECTS

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

- Identifying parties subject to OFAC and AML compliance-related obligations
- Revising the definition of Borrower Principal and, in connection with the revised definition, updating Forms 1115, Borrower and Borrower Principal Certification and 1115SBL, SBL Borrower and Borrower Principal Certification
- Defining a Complete Borrower/Borrower Principal Due Diligence Package and requiring submission of the package only for Required Borrower Principals rather than for all Borrower Principals
- Requiring submission of a Certified Organizational Chart, including an executed Form 1114, Certification – Organizational Chart for the Borrower, guarantor not in the Borrower’s organizational structure, Master Tenant, if applicable or Operator, if applicable
- Rephrasing and re-organizing the content of Chapter 5, Seller/Servicer Representations and Warranties, to make the Chapter more readable
- For Targeted Affordable Housing (TAH) Mortgages
 - Adding our requirements for originating tax-exempt Loans (TEs)
 - Adding eligibility requirements for Bridge to Resyndication loans
 - Providing LIHTC foreclosure support requirements for mixed-income Properties
 - Updating our requirements for Preservation Rehabilitation Mortgages
 - Clarifying that a refinance test is not required for a Mortgage with a loan term and amortization period of greater than or equal to 15 years
- Updating our documentation and assessment requirements for Seniors Housing Mortgages
- Clarifying required coverage in the title insurance policy for a subordinated ground lease on an SBL Property
- Modifying our process for recommending denial of a Transfer of Ownership approval request when submitting an Early Indication Package
- Updating the SBL Collateral, Repurchase, Loss and Securitization Chapter to clarify the Seller’s loss position following the repurchase period
- Indicating that, for SBL Mortgages, the rent roll must be dated within 45 days of submission of the underwriting package
- Revising our Appraisal requirements to include a page limit for SBL appraisal reports, and removing Form 71A, Appraisal Report Residential Income Property
- Revising the Form 1105, Property Condition Assessment to update citations to Guide Chapter 60

Effective dates

Our new requirement that limits the length of an Appraisal for loans submitted to Freddie Mac under the SBL program is effective for underwriting packages submitted on or after January 1, 2019. The requirement for the submission of a Certified Organizational Chart using Form 1114, Certification – Organizational Chart and the revised Forms 1115, Borrower and Borrower Principal Certification and 1115SBL, SBL Borrower and Borrower Principal Certification are effective for any loan that goes under application with the Seller/Servicer on or after November 1, 2018. All other revisions announced by this Bulletin are effective immediately.

Conclusion

The following new or revised chapters will be published on AllRegs with black text:

- Chapter 25, Originating a Targeted Affordable Housing Tax-Exempt Loan (new)
- Chapter 25A, Originating a Targeted Affordable Housing Tax-Exempt Loan under a Forward Commitment (new)
- Chapter 5, Seller/Servicer Representations (substantially revised)

Guide text for all other changes announced in this Bulletin is highlighted in green. More details on these changes are provided on the pages below. If you have any questions about this Bulletin, please call your Freddie Mac representative.

Sincerely,

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OFAC and AML Laws compliance-related obligations

With this Bulletin, we are aligning our requirements with our Corporate standards for Office of Foreign Assets Control (OFAC) and Anti-Money Laundering (AML) due diligence and are:

- Updating our Glossary to add or modify many definitions, including defining the term AML Laws as the applicable federal anti-money laundering laws and regulations including 18 U.S. C. Sections 1956 and 1957, as amended and revising our definition of Borrower Principal
- Identifying which Borrower Principals are required to submit a Complete Borrower/Borrower Principal Due Diligence Package
- Requiring that Organizational Charts meet the requirements set forth in the *Guidance – Organizational Charts* on FreddieMac.com
- Requiring that Certified Organizational Charts be accompanied by an executed Form 1114, Certification – Organizational Chart
- Announcing that we may refuse to issue a commitment based on the results of Web Negative News Searches that we will perform on Borrower Principals as a part of our due diligence

Our requirements apply for all Cash loans (Conventional and TAH), credit enhancements, Forward Commitments at the Commitment stage, Structured Transactions (Conventional and TAH), a Borrower transfer of interest request and an equity investment or any similar Multifamily transaction that creates a business relationship between Freddie Mac and individuals or entities. Forward Commitments at the Conversion or funding stage must meet only certain limited requirements.

Complete Borrower/Borrower Principal Due Diligence Package

A Complete Borrower/Borrower Principal Due Diligence Package consists of Form 1115, Borrower and Borrower Principal Certificate or Form 1115SBL, SBL Borrower and Borrower Principal Certificate; Form 1116, Real Estate Schedule; certified current financial statements for the Borrower and Required Borrower Principals and a credit report for Required Borrower Principals that are individuals. A Complete Borrower/Borrower Principal Due Diligence Package is submitted to Freddie Mac as part of the underwriting package or prescreen package.

To clarify who must submit a Complete Borrower/Borrower Principal Due Diligence Package, we are modifying the Glossary and Forms 1115 and 1115SBL as follows:

- In the Glossary, we are removing the term Required Entity and are adding new or revising existing definitions for the terms Borrower Principal, First Level Owner, Final Level Owner, Intermediate Level Owner, Pass-through Entity, Non-U.S. Equity Holder, Private Entity, Public Company and Required Borrower Principal.
- For Forms 1115 and Form 1115SBL, we are revising definitions for the terms Borrower Principal, First Level Owner, Final Level Owner, Pass-through Entity, and Required Borrower Principal and we are adding a definition for Principal.

We are updating Exhibit 1, Underwriting Checklists. Sections 1.26, 1.29, 1.30, 1.31, 1.32 and 1.33, have been revised and we are adding an entry for the Complete Borrower/Borrower Principal Due Diligence Package to Sections 55.2 and 55SBL.2.

Organizational Chart / Certification of Organizational Chart

We are requiring submission of an Organizational Chart for the Borrower, guarantor not in the Borrower's organizational structure, Master Tenant or Operator if applicable, to include the elements set forth in *Guidance – Organizational Charts*, available on FreddieMac.com.

An executed Form 1114, Certification – Organizational Chart, must be submitted with each Certified Organizational Chart and any revised Certified Organizational Chart to certify that the Organizational Chart is accurate and that all owners with a direct or indirect 25 percent or more interest in the Borrower and all Non-U.S. Equity Owners (anyone with a direct or indirect 10 percent or more interest in the Borrower) or Control of the Borrower are shown on the Organizational Chart.

In support of this change we are:

- Adding the terms Organizational Chart and Certified Organizational Chart to the Glossary to define the broader scope of the submission we now require at underwriting or at a Borrower transfer of interest
- Updating the Glossary with new or revised definitions for the terms Borrower Principal, Control, First Level Owner, Master Tenant, Non-U.S. Equity Holder, and Operator
- Posting the document, *Guidance – Organizational Charts*, on FreddieMac.com
- Adding new Form 1114, Certification – Organizational Chart
- Modifying Sections 55.2 and 55SBL.2, and Exhibit 1, Underwriting Checklists, Sections 1.1, 1.2, 1.26, 1.29, 1.30, 1.31, 1.32 and 1.33. to require the broader Organizational Chart documentation
- Updating Sections 41.4(c), 41.4(d), 41.4(e) and 41.4(d), 41SBL.4(e) and 41.4(e) to use the defined term Organizational Chart to refer to the broader scope of the submission required at a Borrower Transfer of Ownership.

Web Negative News Searches

If a Web Negative News Search that we perform on the Property, Borrower, Borrower Principal or Non-U.S. Equity Holder as part of our due diligence indicates adverse information, we may refuse to enter into a Letter of Commitment to purchase a Mortgage or may refuse to allow a requested Transfer of Ownership or other Servicing-related transaction. Sections 9.3(b) and 9SBL.3(b) have been added to reflect this change. In support of this change we have also added definitions for the following terms to the Glossary: Criminal Conviction, Financial Crimes, Public Company, and Web Negative New Searches.

Restating Chapter 5, Seller/Servicer Representations and Warranties

We are rearranging and rewording the content of Chapter 5, Seller/Servicer Representations and Warranties, to make the Chapter clearer and more readable. Although there are no substantive changes to our representations and warranties requirements, Seller/Servicers are advised to review the Chapter in its entirety, as the location and phrasing of our requirements have substantially changed.

References to Chapter 5 requirements from Chapters 2, 9, 10, 32, 41, 41SBL, 43, 47, 60, 61, 62, 62SBL, 63, 64, 64SBL, 65, 66 and the Glossary have been updated to reflect the revised Chapter 5 Section numbering.

Updates and Additions to Requirements for TAH Mortgages

Tax-Exempt Loans (TEs)

TEs continue to be an important part of our suite of Targeted Affordable Housing products. In recognition of this fact, and to assist customers in understanding the requirements for TEs, we are adding the following chapters to the Guide:

- Chapter 25, Originating a Targeted Affordable Housing Tax-Exempt Loan
- Chapter 25A, Originating a Targeted Affordable Housing Tax-Exempt Loan under a Forward Commitment

Chapter 25 covers such topics as origination requirements, eligible Mortgages, an overview of the quote and commitment processes, Freddie Mac fees, Loan Document requirements, requirements for interest rate cap agreements, UCC continuation and termination statements, Servicing policies and regulatory agreement compliance monitoring.

For Forward Commitments, Chapter 25A covers origination requirements, a description of a Forward Commitment, requirements for the construction lender, an overview of the Forward Commitment process, Freddie Mac fees, requirements for extension requests, property inspections and a description of the Conversion process.

We recommend that the Seller/Servicer read Chapters 25 and 25A in their entirety to gain an understanding of Freddie Mac's TEL program. The following sections have been revised to reflect the addition of TEs to the Guide: Sections 5.16, 17.1, 30.1, and 32.3. The following exhibits have also been revised: Underwriting Checklist Exhibit 1, Sections 1.29, 1.32, and 1.33; and Exhibit 2: Origination Guidelines for Targeted Affordable Housing Mortgages. We have also updated the Glossary with the terms applicable to TEs.

Preservation Rehabilitation Mortgages

We are revising our requirements for Preservation Rehabilitation Mortgages to:

- Clarify that Preservation Rehabilitation is available for TAH Cash Mortgages with 4% LIHTC and 9% LIHTC, and TEs and Bond Credit Enhancement Mortgages with 4% LIHTC
- Require the rehabilitation work to cost no more than \$60,000 per unit
- Include requirements for loan sizing, guaranties, the maturity risk analysis and tenant displacement for a Preservation Rehabilitation Mortgage
- Require a Replacement Reserve and Impositions for the payment of real estate taxes and insurance premiums; separate Reserves for Priority Repairs and Green Improvements may be included in the budget for the proposed rehabilitation
- Specify requirements for Appraisals for Preservation Rehabilitation Mortgages
- Require the rehabilitation to be monitored by a licensed architect/engineer, who may be a member of the Seller/Servicer's staff or a third-party consultant

The Borrower must enter into a rehabilitation escrow agreement, which specifies third party reports and documentation, allows for construction monitoring, and establishes the requirements for the release of loan proceeds during rehabilitation.

These revisions and additions can be found in Sections 19.2(e), 25.1(g), and 28.1(g). Additional instructions for an Appraisal for a Preservation Rehabilitation Mortgage have been added to Section 60.28. Documentation required for the underwriting package for a Preservation Rehabilitation Mortgage has been added to Section 55.2 and Underwriting Checklist Exhibit 1, Sections 1.26 and 1.29.

Bridge to Resyndication

Bridge to Resyndication enables a Seller/Servicer to provide a short-term cash loan for the purpose of acquiring or refinancing a Property and completing the LIHTC resyndication process. Most eligible Properties are LIHTC properties at or nearing the end of their compliance period. We are adding the following requirements to the Guide in Section 19.2(g):

- Stabilized properties with LIHTC-eligible rent levels and evidence of LIHTC-eligible tenants are eligible for Bridge to Resyndication.
- The Borrower must be an experienced LIHTC developer/owner who has completed multiple resyndications using 4% LIHTC and tax-exempt debt.
- A Borrower Principal with less than three years of ownership must have 15 percent or more of cash equity.
- The maximum term of the loan is two years with one 6-month extension granted at the discretion of the lender and Freddie Mac.
- Full term interest only payments are available.
- Floating-rate, uncapped interest is available.
- The DCR and LTV parameters are based on the current market rate for a comparable mortgage, the as-is market value, and the as-is NOI.
- Freddie Mac requires a Replacement Reserve and Reserves for the payment of real estate taxes, insurance premiums, and Priority Repairs.

These requirements have been added to the Guide as Section 19.2(g).

LIHTC Support for Mixed Income Properties

LIHTC foreclosure support provides foreclosure protection to LIHTC investors when Freddie Mac is providing the senior debt on a LIHTC mixed income Property. Support is in the form of a contractual obligation for Freddie Mac to pay the LIHTC investor a specified amount upon completion of a foreclosure action by Freddie Mac. Freddie Mac has no obligation to the tax credit investor(s) in the event the Property becomes non-compliant for LIHTC and does not guarantee any benefits lost prior to the Freddie Mac foreclosure.

LIHTC Foreclosure Support is available for both immediate funding and Forward Commitments for Bond Credit Enhancement and TEL Mortgages.

We are adding the following requirements to the Guide:

- To be eligible, at least 20 percent of the Property's units must be LIHTC units.
- The term of the Mortgage must be 10 or 15 years.
- A monthly or quarterly fee based on the notional tax credit equity exposure is permissible, which amortizes as benefits are received to a pre-established floor.
- The Property must be fully stabilized with qualified low-income tenants.

There are additional post-purchase reporting requirements for the Borrower, approved tax credit syndicator and the LIHTC syndicator.

These changes were added to the Guide as Sections 25.1(h) and 28.1(h).

Use of the Refinance Test

We are revising Section 19.2(a) to clarify that a refinance test is not required for a Mortgage with a loan term and amortization period of greater than or equal to 15 years.

Seniors Housing Mortgage Requirements

We are clarifying and in some cases easing our requirements regarding the type of documentation or assessment required for certain Seniors Housing Mortgages.

Seniors Housing Liability Assessment

If a Seniors Housing Property includes assisted living, Alzheimer's care or skilled nursing units, the Seller must provide Freddie Mac with a Seniors Housing Liability Assessment for each manager or Operator. The Liability Assessment evaluates the on-site manager or Operator's licensure and regulatory compliance status as well as their risk management practices with respect to employees, residents and incident reporting.

Effective with this Bulletin, we will no longer approve the professionals that are permitted to complete the Seniors Housing Liability Assessment. Rather, Seller/Serviceers must ensure that the Liability Assessment is performed by a professional meeting the minimum education and experience requirements outlined in Section 21.2(i). Seller/Serviceers must document the suitability of the professional with positive references and sample work-product and provide evidence of such documentation in the Liability Assessment.

We are adding a *Seniors Housing Liability Assessment* entry in Section 55.2 to outline these requirements and provide details on the topics to be addressed in the Liability Assessment that must be delivered in the full Underwriting Package.

In support of this change, we are removing Exhibit 15, Seniors Housing Liability Assessment Checklist from the Guide and removing the document titled, *Qualifications of Senior Housing Liability Assessment Professionals*, from FreddieMac.com.

Mortgage transaction narrative analysis requirements

We are updating Section 55.2 to indicate that the *Mortgage Transaction Narrative Analysis* to be delivered in the Full Underwriting Package for a Seniors Housing Mortgage must contain the following information with respect to the property manager or Operator:

- The states or regional locations of all properties under management, and
- The type and number of acuity of the units managed or owned

In addition, for Seniors Housing Mortgages that do not require a Seniors Housing Liability Assessment, the narrative must include a description of the depth and level of experience of all key personnel at the corporate, regional and property levels of the property manager or Operator.

Seniors Housing Management Assessment

We are announcing that we will now require a Seniors Housing Management Assessment only for a Seniors Housing Mortgage with a loan amount greater than or equal to \$50 million, or for any Seniors Housing Mortgage that is part of a crossed pool, if the amount of the pool is greater than or equal to \$100 million. We are also clarifying that the Management Assessment must describe and assess, in narrative form, the experience and capabilities of the manager or Operator of the Property at the corporate, regional and property levels.

We are updating the *Seniors Housing Management Assessment* entry in Section 55.2 with the new requirements and revised details on the topics to be addressed in the Management Assessment that must be delivered in the full Underwriting Package.

SBL Title Insurance Policy Requirements

We are updating Section 29SBL.1(b) to clarify that we require that a title insurance policy insure the Lender's interest in both the fee estate and the leasehold estate if all or a portion of a fee holder's interest in an SBL Property has been subordinated to a ground lease.

SBL Rent Roll Requirements

We are revising Section 55SBL.2 to indicate that the rent roll that Seller provides to Freddie Mac must be dated within 45 days of submission of the underwriting package, rather than within 30 days of the package submission.

Recommending Denial of a Transfer of Ownership in the Early Indication Package

We are revising Section 41.4(b) to clarify that if a Servicer, at the time it submits an Early Indication Package, believes a requested Transfer of Ownership should be denied, then the Servicer should submit its denial recommendation with the Early Indication Package so that Freddie Mac can evaluate and act upon the recommendation.

SBL Collateral, Repurchase, Loss and Securitization

We are revising Chapter 46, SBL Collateral, Repurchase, Loss and Securitization, to clarify that the Seller's loss position following the repurchase period applies to the first 10 percent of the principal balance of any defaulted SBL loan that triggers the loss obligation. We have also added a provision addressing the Seller's repurchase and loss obligations for performing SBL loans if there is ever a securitization standstill event.

Appraisal Requirements

Discontinuing publication and use of Form 71A, Appraisal Report - Residential Income Property

We are discontinuing the publication and use of Form 71A, Appraisal Report - Residential Income Property. Seller/Serviceicers must continue to submit written Appraisals that meet our guidelines (including the definition of market value outlined in Section 60.3) in a narrative format. Sections 60.1, 60.3, 60.11, 60.12(a), 60.15, 60.16 and the Glossary have been modified in support of this change.

Removing classification of “Properties with fewer than 50 units”

In the past, we have identified certain appraisal requirements for smaller Properties based on the number of units at the Property. Effective immediately, we are removing that distinction and will no longer refer to “Properties with fewer than 50 units.” In support of this change, we are modifying Sections 60.4(a), 60.11, 60.12(a), 60.14(c), 60.15 and 60.19 and are clarifying that these Sections apply to Appraisals submitted for loan origination in the Small Balance Loan (SBL) program regardless of the number of units at the Property.

General Changes to our Appraisal Requirements

In addition to making non-substantive, clarifying edits to Sections 60.10, 60.12, and 60.20, we are announcing the following general changes to our appraisal requirements:

- Modifying Section 60.6 to require that Seller/Serviceicers provide the following documentation to the appraiser, if applicable:
 - Shared access agreements or other easements
 - Regulatory agreements or other agreements that might affect the Property’s rents or expenses
- Clarifying that Seller/Serviceicers must maintain documentation that demonstrates that the appraiser meets our qualification requirements. Section 60.7 has been revised in support of this change.
- Modifying our requirements regarding:
 - Analyzing and reporting on a Property’s sales and other concessions (Section 60.12(e))
 - Including comparable sales when using the sales comparison approach (Section 60.14(b))
 - Identifying expense comparables and, for SBL Mortgages, supporting the capitalization rate when using the income approach (Section 60.14(c))
 - Identifying submarket influences when describing the Property’s market (Section 60.15)
 - For Appraisals of Properties containing commercial space, the content of commercial property lease abstracts (Section 60.19)

Reducing the length of SBL Appraisals

Effective with underwriting packages delivered to Freddie Mac on or after January 1, 2019, we are limiting the length of an Appraisal we will accept for an SBL Mortgage to a maximum of 50 pages. This page limit does not include Addenda materials attached to the Appraisal. Section 60.11 has been revised in support of these changes.

Form 1105, Property Condition Assessment

We are revising the Form 1105, Property Condition Assessment, to update various citations to reflect the Chapter number of our Appraisals Chapter, Chapter 60.