



# Surveillance

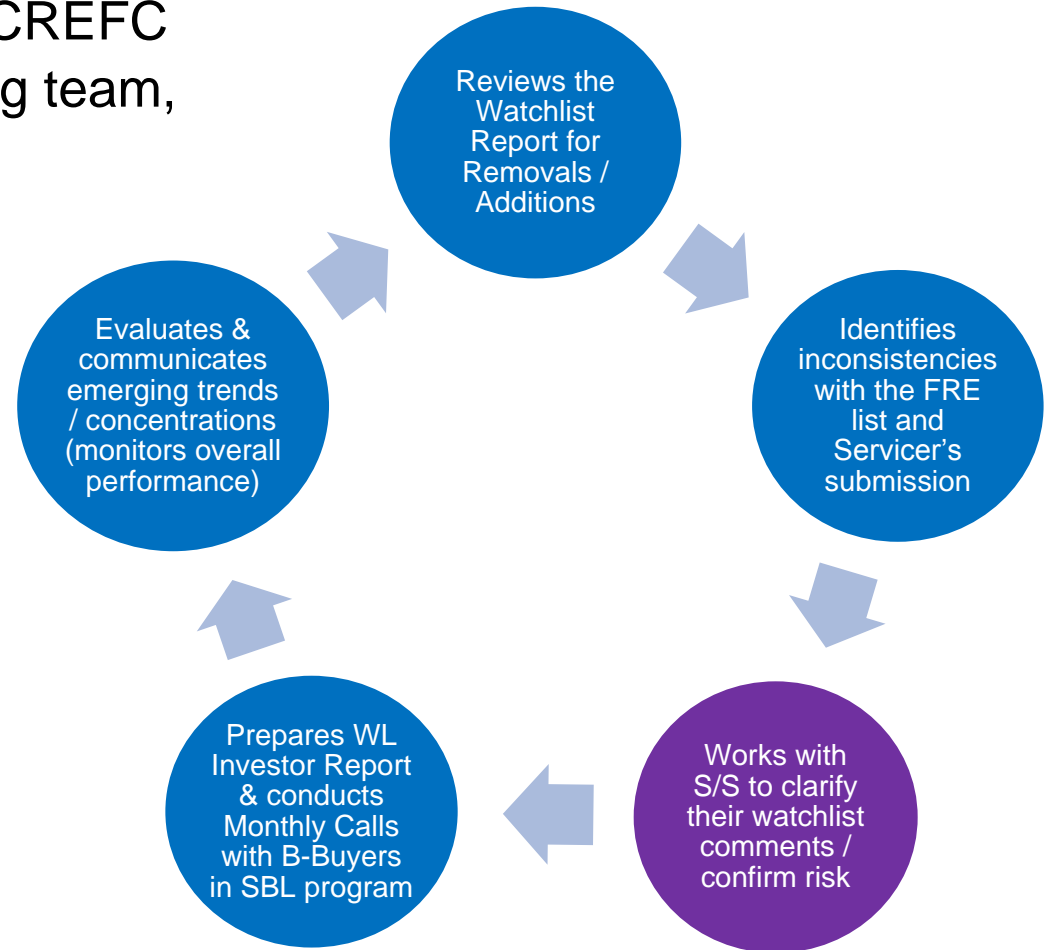
2018 Asset Management & Operations Servicer Workshop



# Watchlist Management

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- Upon receipt of the monthly CREFC IRP from the Master Servicing team, Surveillance ...



- What is a Driving Risk Factor?
  - » The reason that is causing financial performance or collateral condition to deteriorate
  - » It is not the what, but rather the why
- Examples of Trigger Events (WHAT)
  - » Decline in occupancy
  - » Increase in total operating expenses
  - » Decrease in Effective Gross Income
  - » Property Condition (Life Safety or Deferred Maintenance)
  - » Unauthorized transfer Consent
- Examples of Driving Risk Factors (WHY)
  - » Market
  - » Unit renovations
  - » Tenant repositioning
  - » Routine turnover / Lease-Up
  - » Property management
  - » Hazard loss
  - » Property condition (Repairs, Life Safety)

## Sequence of Commentary

1 <sup>st</sup> sentence	The loan was added to WL on ____ <effective date> due to ____ <driving factor>.
2 <sup>nd</sup> sentence	As of ____, the physical occupancy rate is ____ for ____ <# of units>, as compared to __% which was previously reported as of ____ . <If underwriting please indicate> <Note: If occupancy has declined from previous period, explain why – consider the driving factor to help you answer this question>
3 <sup>rd</sup> sentence	Current DCR is ____ as reported for the period ending ____ <also include amortized DCR if partial IO>. <If DCR has declined from previous period or still within Watchlist range, explain why – consider the driving factor to help you answer this question>
4 <sup>th</sup> sentence	Describe the driving factor in more detail.
5 <sup>th</sup> sentence	Describe what actions the Borrower and Servicer are taking to mitigate the risk. Include immediate next steps that are being taken and include specific follow-up dates (as applicable).
6 <sup>th</sup> sentence	Describe Borrower level of engagement and responsiveness to the Servicer’s request for information (as applicable)
Additional Comments	See Chart on page 6 & 7 by Driving Risk Factor

- Additional comments suggested based on Driving Risk Factor

Category	Driving Factor	Additional Components of Comment
Financial Performance	Hazard Loss	Indicate date of loss (confirm hazard loss paperwork has been processed), identify status of proceeds from the insurance company, determine if borrower is coming out of pocket for any of the repairs, identify # of units offline, describe scope of work to bring units back online, identify when units will be rent ready
Financial Performance	Market	Identify main source of employment, average occupancy from REIS or other sources available, identify if it is a crime issue or employment/industry driven, borrower and servicer outlook on the market improvement, determine with servicer if they feel property is performing at/under/ or above market occupancy levels.
Financial Performance	Repairs	Identify scope of repairs, anticipated cost to complete (if currently escrowed or out of pocket), and anticipated completion date.
Financial Performance	Routine Turnover	Identify leasing plan, current market rents, average lease terms, reason for turnover, determine # of units rent ready.
Financial Performance	Tenant Repositioning	Identify eviction rate, what tenant profiling procedures are going into effect, describe marketing plan to attract qualified tenants, identify if concessions are in place or planned, identify current and anticipated rental rates, determine # of units rent ready.
Financial Performance	Property Management	Identify if the property management was changed (if so, effective date and confirm approved through CRT) -- if not in CRT it is an unauthorized management change that will need to be documented.

- Additional comments suggested based on Driving Risk Factor

Category	Driving Factor	Additional Components of Comment
Financial Performance	Unit Renovations	Include # of total units impacted, scope of renovation work (interior or exterior), approximate amount of work to be completed, anticipated post-renovation rental rates, include anticipated completion date.
Collateral Condition	Property Condition, Life Safety (General or Imminent)	Identify severity of the property condition (i.e. what is causing property condition rating to be a 4 or a 5); with respect to life safety or deferred maintenance, identify general scope of work.
Other	Forced Placed Insurance	Identify effective date of forced placement, identify type of insurance coverage under the forced place policy, indicate borrower's reason for not maintaining adequate insurance, identify anticipated timeline to remove from forced placed policy.
Other	Litigation	Indicate the nature of the litigation, effective date of filing, severity of claim, determine if it was pre-existing at underwriting (identified in Asset Summary Report), identify upcoming court actions or court dates, describe litigation claim and borrower's position, identify if claim names our subject property in the litigation.
Unknown	Unknown	Describe when and how many attempts have been made to obtain updates from the Servicer.

# CREFC IRP Reporting: Do's and Don'ts

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- All reports must be submitted by COB Determination Date (11th calendar day or next business day) + 1
  - » Submit reports earlier in the day to allow time for any corrections
  - » If reporting is delayed, inform Freddie Mac as soon as possible
  - » Respond to any Freddie Mac inquiries on same day as reporting
- Population must be accurate
  - » Submit all required reports
  - » Include the deal name in the subject line of the email and/or the file name
  - » Include all loans that are part of the deal
- Adhere to the CREFC Format
- Ensure data consistency across different reports

- Servicer Loan Number instead of Freddie Mac Loan Number
- Incorrect Prospectus Number
- Incorrect CREFC Format
  - » Additional columns added
  - » Columns re-ordered
- Ending Reserve Balance in Loan Loss Reserve File doesn't match Total Reserve Balance in Loan Periodic File
- Current Month's Beginning Reserve Balance doesn't match last month's Ending Reserve Balance

# NOIWS/OSAR & Inspection Do's and Don'ts

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# Top 3 Return Reasons for CREFC Submissions

1

Incorrect Financial Indicator and/or number of months covered

2

Incorrect CapEx reported

- Report Replacement Reserve amount per Loan Agreement or Exhibits

3

Inaccurate Debt Service

- Financial Indicator and number of months for **Annual** CREFC submissions

Occupancy Rate (physical)	0.00%		
Occupancy Date	MM/DD/YY		
(1) "X" if debt is outside of the trust, otherwise leave blank (2) Total \$ amount of Capital Reserves required annually by loan documents			

<b>Financial Indicator</b>	Select from List		
Statement Ending Date	Select from List		
<b>No. of Months Covered</b>	Annual		
	TTM		
	YTD Annualized		
	YTD Normalized		

When reporting FYE numbers in **A-CREFC** Submissions:  
Always only select "**Annual**" from the drop down menu

**No. of months = No. of months in the Borrower's Op Stmt**

For example:

If Borrower reports full 12 mths of data = 12

If Borrower reports 7 mths of data = 7

*\*even if the data is annualized to 12 months\**

**INCOME:**  
Gross Potential Rent (3)  
Less: Vacancy Loss

Adjust

Include forfeited security/late fees/pet

Gross Potential (with Vacancy Loss) or Base Rents; use negative \$ amt for Vacancy Loss

Property Insurance

- Financial Indicator and number of months for **Quarterly CREFC** submissions

Occupancy Rate (physical)	0.00%
Occupancy Date	MM/DD/YY

(1) "X" if debt is outside of the trust, otherwise leave blank  
 (2) Total \$ amount of Capital Reserves required annually by loan documents

<b>Financial Indicator</b>	YTD Normalized
Statement Ending Date	Select from List
<b>No. of Months Covered</b>	Annual
	TTM
	YTD Annualized
	YTD Normalized

INCOME: ↑  
 Gross Potential Rent (3)

**No. of months = No. of months in the Borrower's Op Stmt**

For example:

If Borrower reports full 12 mths of data = 12

If Borrower reports 7 mths of data = 7  
 \*even if the data is annualized to 12 months\*

When reporting Quarterly numbers in **Q-CREFC** Submissions:

Always only select one of the three options the drop down menu

1. TTM = Trailing 12 months
2. YTD Annualized (for annualised and normalized data)
3. YTD Normalized

Property Insurance

- Report Actual Amount due from Borrower for reporting period
  - » Full-term Interest-Only (IO) – Enter IO debt service
  - » Partial IO in conversion year – Enter Part IO, Part Amortizing debt service based on amortization start date
    - Comment on stressed DCR using amortizing debt service
  - » Amortizing – Enter amortizing debt service
  - » Floating Rate – refer to CREFC Guidelines
- Footnote debt service methodology in comments
- Report only Freddie Mac Debt Service in Note A, B and C

# General Debt Service Reporting Tips (Cont'd)

- Use the Prepopulated Underwriting Debt Service in At Contribution column as guidance for number of liens
  - » Report any additional supplemental loans funded after original UW in Note B/C and provide loan details in the comments
- Use funding dates to determine debt service amounts to be reported in Note A, B and C respectively
- Report any **External Subordinate** (not Supplemental) debt service in comments - include lender, loan terms, debt service amounts and DCR
  - » Report **External Subordinate** UPBs in the Property Overview Section Note A,B,C

**CREFC Investor Reporting Package**  
**MULTIFAMILY NOI ADJUSTMENT WORKSHEET** (includes Mobile Home Parks and Co-ops)  
 as of 2/1/2018

PROPERTY OVERVIEW	6-001	Paid Thru Date	Allocated Loan Amount/Percentage	
			Debt Outside Trust (1)	
987654321	\$5,000,000.00	02/01/18	\$	%
Note A-Scheduled Loan Balance			X or Blank	0.00%
Note B-Scheduled Loan Balance				
Note C-Scheduled Loan Balance				
Property Name	Freddie Mac Apts			
Property Type	MF			
Property Address, City, State	8100 Jones Branch Drive			
Current Net Rentable SF/Units/Pads,Beds	100	units	Use second box to specify st	
Year Built/Year Renovated	2000	2015	specify annual/per unit...	
Cap Ex Reserve (annually)/per Unit.etc. (2)	\$25,000.00	\$250		
Statement Ending Date	12/31/17			
Occupancy Rate (physical)	92.00%			
Occupancy Date	03/31/17			

(1) "X" if debt is outside of the trust, otherwise leave blank  
 (2) Total \$ amount of Capital Reserves required annually by loan documents

Enter Subordinate UPB here and provide details in Comments



# General Debt Service Reporting Tips (Cont'd)

- Loans with one lien
  - » Report actual debt service paid for the Financial Year End in Note A
- Loans with up to three liens
  - » Report actual 1<sup>st</sup> lien debt service in Note A
  - » Report actual debt service paid in Note B and Note C respectively based on funding dates for each lien
- Loans with more than three liens
  - » Report 1<sup>st</sup> and 2<sup>nd</sup> debt service paid in Note A and Note B, respectively
  - » Report combined debt service for the 3<sup>rd</sup> lien and beyond in Note C



Net Cash Flow	<input type="text"/>
Debt Service - A Note	<input type="text"/>
Debt Service - B Note	<input type="text"/>
Debt Service - C Note	<input type="text"/>
Net Cash Flow after Debt Service	<input type="text"/>
NOIWS (NOIWS - Debt Service) - A Note	<input type="text"/>

# General Debt Service Reporting Tips – Securitized KJ-Deals



- KJ-Deals typically have 1<sup>st</sup> liens securitized in an earlier K-Deal
  - » Report K-Deal 1<sup>st</sup> lien debt service in Note A
  - » Report KJ debt service in B and/or C based on funding dates and number of loans within a security

**EXHIBIT B**  
Debt Service Reporting Protocol for Loans with Multiple Liens

	Loans with one additional lien	Loans with two or more liens (all securitized)	Loans with an unsecuritized 4th lien for which both 2nd and 3rd are securitized	Loans with a 4th lien for which 2nd is securitized and 3rd/4th are not yet securitized
Note A - Scheduled Loan Balance	1st Lien Outstanding Balance	1st Lien Outstanding Balance	1st Lien Outstanding Balance	1st Lien Outstanding Balance
Note B - Scheduled Loan Balance	2nd Lien Outstanding Balance	2nd Lien Outstanding Balance	2nd & 3rd Lien Outstanding Balance	2nd Lien Outstanding Balance
Note C - Scheduled Loan Balance	Blank	3rd Lien (and 4th etc as applicable) Outstanding Balance	4th Lien Outstanding Balance	3rd & 4th Lien Outstanding Balance
Debt Service - A Note	1st Lien Debt Service Requirements	1st Lien Debt Service Requirements	1st Lien Debt Service Requirements	1st Lien Debt Service Requirements
Debt Service - B Note	2nd Lien Debt Service Requirements	2nd Lien Debt Service Requirements	2nd & 3rd Lien Debt Service Requirements	2nd Lien Debt Service Requirements
Debt Service - C Note	Blank	3rd Lien (and 4th etc as applicable) Debt Service Requirements	4th Lien Debt Service Requirements	3rd & 4th Lien Debt Service Requirements
	Note: For loans in which the 2nd lien is a KJ deal, the above still holds true. First lien (securitized) should still be Note A.			

Note: Debt Service should always be reported in actual dollar amounts paid over reporting time period. For example, if a loan funded in March, June 30th statement should just report March-June payment requirements. For Partial IO loans, report actual debt service paid for reporting period. For example if a loan converts to P&I in Sept, report 8 months of IO and 4 months of Principal & Interest.

- Code Bad Debt to Other Income if no vacancy is reported in the Borrowers operating statement
- Explain low Real Estate Tax amounts in the narrative – also include tax abatement expiration dates
- Report insurance premiums paid for the reporting period although none reported in the Borrower's operating statement
- Submit coded financial statements, if available
- Refer to CREFC coding matrix for guidance
  - » Report Bad Debt in vacancy (preferably); although we will accept Bad Debt in Other Income
- Provide meaningful comments for income and expense line items with significant variance year over year or when compared to Underwriting if reporting period is within 2 years

# Housekeeping Reminders (Cont'd)

- Underwriting data now available in DataTape format in PRS

The screenshots illustrate the navigation process:

- Screenshot 1:** Shows the main navigation menu with 'Reports' highlighted.
- Screenshot 2:** Shows the 'Other Available Reports' dropdown menu.
- Screenshot 3:** Shows the 'Reports' section with a list of available reports.
- Screenshot 4:** Shows the 'Report Criteria (Underwriting Data Servers)' form with 'Domino Bank' selected in the 'Select A Company' dropdown.

Available Reports
Late Assessments Report
Past Due LIT items
Performance Report (2012)
Performance Report (2013)
Performance Report (2014)
Rejected Report
Return Report (New)
Risk Rating Report for Assess
<b>Underwriting Data Servers</b>
Waive / Suspend Report

**Report Criteria (Underwriting Data Servers)**

Required Fields

Select A Company: **Domino Bank**

- Domino Bank > Domino - Bonds
- Domino Bank > Domino - Conventional
- Domino Bank > Domino - TAH
- Domino Bank > Domino Bank - SBL

## Top 3 Return Reasons for Inspection Submissions

1. “Unknown” or “N/A” reported for O&M compliance
2. Insufficient details provided in Inspection
  - » Inconsistent overall property ratings and property component ratings
  - » Deferred maintenance estimates not reflective of what is reported in pictures
3. Inaccurate Occupancy numbers

- Determine what O&M is in place, if any, by looking at the Loan Agreement and/or Environmental Site Assessment Report
- Determine if Property Manager is aware of the O&Ms in place
  - » Proof of O&M Plan
  - » Compliance with what is set forth in the plan
    - Documentation of incidents and remediation

# Inspection Form – O&M Sections

- Complete O&M sections in Inspection Form accurately

**General Information**

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**Contact Information**

Walker & Dunlop	Contact Company	Walker & Dunlop
Lori Frederick	Contact Name	Lori / Frederick
(781) 707-9424	Contact Phone	(781) 707-9424
lfrederick@walkerdunlop.com	Contact Email	lfrederick@walkerdunlop.com
	Addtl ID #1 (editable)	
	Addtl ID #2 (editable)	

O&M Plan(s) in place at the property: Asbestos; Lead Based Paint, Moisture Management, and Environmental Remediation.

Unknown is **not** an acceptable response

Unknown

**General Info**

inhead Apartments	Primary Property Type	Multifamily
mpike Road	Secondary Property Type	High Rise Multifamily (≥ 7 stories)

Physical Condition & DM | Photos | PhotosB | **Mgmt Interview**

Is the property in compliance with ALL O&M Plan(s)?  
 (Plans such as, but not limited to, Operations and Maintenance, Moisture Management and Environmental Remediation.)

If no, please explain which plan(s), the requirements, noncompliance items and estimated costs:  
 The following O&M Plans are in place at the property: Asbestos; Lead Based Paint; Moisture Management Plan.

Not Applicable  
 Yes  
 No  
 Not Applicable  
 Unknown

Unknown is not an acceptable response

Response for O&M Compliance in the Management Interview tab should be consistent with the General Info tab

Only select Not Applicable if there is no O&M in place

Other Information or Comments:  
 Rents typically increase at every renewal, typically an average of 5%, however, over the past 12 months rental rates have decreased an average of -\$45 due to new lease pricing when the occupancy dips or traffic is slow. There are 2 employees that reside at the property. One lead tech pays \$25 dollars a month and 1 leasing consultant receives a 25% discount.

MBA Ratings | General Info | Physical Condition & DM | Photos | PhotosB | **Mgmt Interview** | Mult

# Inspection Form – Overall Property Rating

- Overall Property Rating should be reflective of Property Assessment Ratings for individual components. Explain any discrepancies in the comment section.

**Standard Inspection Form**

Inspection Date	10/18/17	Time	2:30 PM	Property City	Mclean
Loan Number	987654321		Property State/Country	VA	/ US
Property Name	Freddie Mac Apts		Overall Property Rating	4	

**Physical Condition Assessment and Deferred Maintenance**

*Property Assessment*

Physical Condition	Overall Rating	Trend	Representative Components (Not all-inclusive)	Inspector Comments
Curb Appeal	2	Stable		
Site	2	Improving		
Building / Mechanical Systems	2	Stable	HVAC; Electrical; Boilers; Water Heaters; Fire Protection; Sprinklers; Plumbing; Sewer; Solar Systems; Elevators/ Escalators; Chiller Plant; Cooling Towers; Building Oxygen Systems; Intercom System; PA System; Security Systems	scheduled to be repaired/replaced. The water heaters and furnaces all appear to be in good working condition. The boiler room is clean and maintained.
Building Exteriors	2	Stable	Siding; Trim; Paint; Windows; Exterior Entry Ways; Stairs; Railings; Balconies; Patios; Gutters; Downspouts; Foundations; Doors; Façade; Structure (Beam/Joist)	The exterior brick on the building is in good condition. The walkways are free from debris and the signage is bright and visible.
Building Roofs	1	Improving	Roof Condition; Roof Access; Top Floor Ceilings; Shingles/ Membrane; Skylights; Flashing; Parapet Walls; Mansard Roofs	The roofing looks to be in good condition. The roofs were replaced as part of the 2017 CapEx for a total of \$337k

Navigation: < > ... MBA Ratings | General Info | **Physical Condition & DM** | Photos | PhotosB | Multifamily | Mgm

For example: An overall "4" property rating shouldn't have most of its individual components rated a "2" or "3". Explain any disconnect in the comments section.



# Inspection Form – Deferred Maintenance Estimates

- Deferred Maintenance Estimates should reflect what is reported in the photos and narratives

## Deferred Maintenance Items

	Identify Item and Describe Condition (including location)	Rating	Photo #	Life Safety	Est. Cost
1	Down Units A, B and C were included in the Completion Repair Agreement as part of the Supplemental Loan closing Units scheduled to be back on line 3/31/2018.	Major	1	No	\$ 30,000
2	Leaking pipe in underground garage	Minor	2	No	\$ 2,000
3	<div style="border: 1px solid black; padding: 5px;"> <p>Include deferred maintenance cost to repair estimates that is reflective of what is reflected in the photos and narratives.</p> <p>Obtain cost estimates from Property Manager where available or estimate cost based on experience or industry cost standards</p> </div>				
4					
5					
6					
7					
8					
9					
10					
11					

Navigation: < > ... | MBA Ratings | General Info | **Physical Condition & DM** | Photos | PhotosB | Multifamily

# Inspection Form – Occupancy Rate

- Report accurate occupancy numbers in the General Info tab

Overview of Property Information	
Number of Buildings	5
Number of Floors	3
Number of Elevators	0
Number of Parking Spaces	250
Number of Units / Rooms / Beds	100
Rent Roll obtained at Inspection	Yes
Rent Roll Date	10/16/2017
Total Number of Down Units / Rooms / Beds	4
Unit of Measurement Used	Units
Is this an Affordable Housing Property?	No

Sum<> Parts error: Sum of occupied and vacant space should add to total number of units	1980
Occupied Space	95
Vacant Space	10
Total Percent Occupied	sum<>parts
Annual Occupancy	90.00%
Annual Turn Over	39.17%

# Repairs, Deferred Maintenance & Code Violations

- Identify Repairs
  - » Physical Risk Report Form 1104 – SBL Properties
  - » Physical Risk Report Form 1108 - Conventional Loans under \$50M
  - » Property Condition Report
- Repair categories are defined in the Guide Section 62.3(b)
  - » Critical Repairs
  - » Priority Repairs
  - » Operational Repairs

- SBL Mortgages with Loan Agreement Form date of 11/2/15 or earlier and Non-SBL Mortgages
  - » Establish communication to manage Borrower expectations.
  - » Walk Borrower through their loan document obligations
  - » Servicer must notify Freddie Mac within 10 Business Days following confirmation of repair completion
    - Provide notification on Borrower Certification – Completion of Repairs form
    - Additional proof of completion may include photos, lien waivers, and /or proof of payment
  - » First annual inspection is also an opportunity to close out these items

- SBL Mortgages with a Loan Agreement date after 11/2/15
  - » Freddie Mac will create a Loan Item Tracking (LIT) entry in PRS to capture all Priority Repairs identified on Form 1104.
  - » Servicer must determine if Borrower completed Priority Repairs listed on Form 1104 at the first annual inspection or subsequent inspections.
  - » Once Priority Repair is deemed complete, Servicer has 30 calendar days to update the LIT accordingly and the loan becomes non-recourse to the Borrower

- SBL Mortgages with a Loan Agreement Form date of 11/2/15 or earlier and Non-SBL Mortgages
  - » Required repairs not be completed by the Completion Date.
    - Extension Request - at least 10 days prior to completion, Servicer should file an extension and, if applicable, Partial Completion of Repairs form
    - Modification Request - provide FM with detailed update in PRS and submit request for modification
  - » If Priority Repairs remain outstanding 30 calendar days after the due date, Servicer should issue a Reservation of Rights letter and forward a copy to MF\_Master\_Servicer\_SBL@Freddiemac.com for SBL loans
  - » If Priority Repairs remain outstanding 60 days after the due date, Servicer must use discretion to remedy non-compliance. Consider obtaining a limited scope inspection, suspending reserve disbursements or instituting replacement reserves (if permitted under the loan documents)

- SBL Mortgages with a Loan Agreement Form date after 11/2/15
  - » If repairs are not completed by the first annual inspection, Servicer issues a reminder notice for non-compliance. Reference the Loss or Damage Recourse provision of the Loan Agreement
    - Subsequent notices are not required for non-Life Safety items
    - If funds are held in escrow for Priority Repairs, funds will remain with the Servicer until cure proof is provided
  - » For Life Safety Priority Repairs, the Servicer must work with the Borrower until the Life Safety Hazard is remediated.
  - » If not compliant, Borrower Recourse remains in effect for portion of the indebtedness equal to any loss or damage suffered by Lender as a result of the failure to complete the Priority Repairs identified in the Physical Risk Report



- Identify Deferred Maintenance
  - » Consider the situation
- After Deferred Maintenance is identified
  - » Servicer must notify Borrower within 30 days of the inspection of the need to take corrective action for
    - Deferred Maintenance Items greater than \$10,000
    - Life Safety Hazards
    - Environmental Issues
    - Moisture or Mold issues
- Report findings and remediation efforts in the inspection and Servicer Watchlist Report if loan is on the Watchlist.
- Acceptable proof of completion includes: photos, lien waivers, proof of payment and notice from authorities for code violations.
- Life Safety is a mandatory review threshold pursuant to the CREFC Watchlist Guidelines. A loan may be removed after the Servicer confirms remediation.

# Deferred Maintenance – Completion Timeline



- » Deferred Maintenance items must be completed prior to the next inspection
- » If estimated costs are greater than \$25,000, and/or pose an imminent Life Safety Hazard to the tenants, property structure, or value, the Servicer must follow up in a timely manner until each risk issue has been remediated
- » Outstanding Deferred Maintenance – notice should be sent even if costs are less than \$10,000. Follow up should take into account the nature of the risk
- » If unable to obtain satisfactory evidence within 120 days after the first notice, escalate the situation. Consider obtaining a limited scope property inspection report for specified area of concern, suspending reserve disbursements and/or instituting replacement reserves if permitted under the loan documents
- » Reservation of Rights

- Identify Code Violations
  - » Municipality
  - » Form 1104
- Clearing a Violation
  - » Signed Borrower Certification and copy of documents submitted to the municipality will serve as acceptable cure proof
- Notice Provisions
  - » Follow guidance on Priority Repairs