Send Date: May 26, 2023

Freddie Mac MULTIFAMILY

SBL UPDATE

Small Balance Loan (SBL) Workshop Q&A – Part 2

This week we are responding to the remaining questions that were submitted during our Optigo® Essentials for SBL workshop earlier this month in Chicago. These questions cover content from a few different sessions to help provide clarity across the board.

Session – Know Your Customer (KYC) Updates:

Q: Regarding financial statements not being required for newly formed entities: How recently would the entity need to be formed for this to apply, (e.g., 60 days within submission date, 30 days, etc.)?

A: Freddie Mac views a newly formed entity as one that was not in existence prior to the proposed transaction and has been or will be formed (usually no more than 60 days prior to the submission of the underwriting package, however, should be formed within 90 days prior to loan closing) solely for the specific transaction. For entities formed within 90 days prior to loan closing that have not previously conducted business, public record searches are not required. Please refer to the *Multifamily Seller/Servicer Guide* Chapter 18SBL.30 for further guidance.

Session – Short Term Value Growth:

Q: Is it ever appropriate to look at net operating income rather than net rental income (NRI) for the value growth analysis? Seems reasonable a new owner could come in and operate more efficiently (cut expenses).

A: Based on the SBL Refinance Analysis, our review starts with NRI growth and is our first data point in determining the driver of value creation, as the borrower often does not have adequate operating history from the time of acquisition/refinance to the most recent period to support sustainability in operating expenses over the relatively short period of time. Deviations from the NRI growth should be prescreened with Freddie Mac under Programmatic Exception #14. Any recommended deviation should be supported based on appropriate mitigants.

The analysis is intended to provide insight into what changes the borrower has implemented at the property, how sustainable they may be, or changes in market conditions that have reasonably increased the value of the property.

Session – Income and Expense Analysis:

Q: Can we ever use another source besides Reis or the appraisal for market vacancy?

A: Yes, in some cases we may consider other options such as CoStar with sufficient explanation as to why it's preferred over Reis. We will not necessarily default to the source with the lowest vacancy rate. Instead, we will analyze all options available, so lenders should document and fully explain the underwriting vacancy regardless of source. The data from other sources should also be supported by the appraiser's conclusions of market vacancy. We only ask that the documentation from the third-party source be provided to Freddie Mac.

That concludes the extent of our remaining SBL workshop content. Next week we'll answer some questions that came up in our recent SBL Underwriting Roundtable, so be on the lookout!

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