



SMALL BALANCE LOAN UPDATE

Freddie Mac Staff:

The email below will be sent externally to Multifamily customers and others who are subscribed to our news emails. You are receiving this email for information purposes only, and you may [update your email preferences](#) at any time.

Debt Service Reserve (DSR) Release Adjustments for Small Balance Loans (SBL)

We've updated the SBL COVID-19 DSR rider. The revision permits borrowers to request release of the DSR to the extent the borrower can satisfy the outstanding due diligence and collections requirements even if federal/state/local states of emergencies remain in effect. If all other conditions are satisfied, the borrower can request the DSR be released 12 months after the first payment date.

The revised DSR rider will be implemented based on the status of loans as follows:

- **Prior to final commitment loans:** As of May 28, the automated commitment in the Origination and Underwriting System (OUS) will be updated to incorporate the change. Please confirm that the final commitments include the updated provisions.
- **Committed and rate-locked loans:** The updated DSR rider may be used for any loans not yet delivered to Freddie Mac and must be documented in a commitment amendment.

- **Previously funded loans:** With respect to previously funded loans, we intend to incorporate the changes in Freddie Mac’s treatment of DSR releases through updates to our securitization documents that will require the servicer to interpret the release conditions as set forth in the revised DSR rider. Nothing further will be required on your part.

Additionally, we have extended the conversion date for any funds remaining in the COVID-19 DSR to 15 months, allowing time for i) borrowers to submit their documentation, and ii) review and approval of the submitted documentation.

Optigo HappySM Digital Inspections

On July 31, Freddie Mac will be disabling the email-based HappyCo model in order to improve the [Optigo Happy digital inspection platform](#). Any lenders who have not adopted the new tool will be required to submit the “Property Inspection and Lease Audit” Excel form for each property inspection, starting in August.



Borrower Certification of Property Condition

We’ve updated our [Borrower Certification of Property Condition form](#) on the [Originate & Underwrite webpage](#) under References & Tools.

The revised form limits borrower’s certification of third-party reports to those that are made available to the borrower.

When uploading this form to the Document Management System (DMS), please remember that it has its own unique document type.

COVID-19 Updates

We've updated our [SBL COVID-19 FAQs](#). See question #10 for further clarification on DSR requirements and release of escrows.

And don't forget to visit our [COVID-19 webpage](#) for ongoing updates and any emails you might've missed.



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BORROWER CERTIFICATION OF PROPERTY CONDITION - SBL
(Revised 5/2/2020)

Freddie Mac Loan Number: _____
Property Name: _____

THIS BORROWER CERTIFICATION OF PROPERTY CONDITION - SBL ("Certification") dated _____ 2020 is made in connection with the mortgage loan in the principal amount of _____ ("Loan") being requested by **BORROWER NAME** ("Borrower") from **LENDER** ("Lender") together with its successors and/or assigns. Lender will be secured by the real property located at **PROPERTY ADDRESS** ("Property").

Due to the global pandemic of COVID-19, currently referred to as the coronavirus, Lender, the Federal Home Loan Mortgage Corporation together with its successors and/or assigns, "Freddie Mac," and/or their respective consultants were unable to conduct complete onsite inspections of the Property while underwriting the Loan.

In connection with the foregoing and to induce Lender to make the Loan, **BORROWER, LENDER, OR PERSONS EXERCISING CONTROL** hereby certify for the benefit of Lender and Freddie Mac that: (1) I am the **BORROWER**; (2) **DO NOT BE AN OFFICER, DIRECTOR, PARTNER OR DISPOSABLE OF AN ENTITY WITH A CONTROLLING INTEREST IN BORROWER**; (3) I have read and am competent to address the matters set forth in this Certification; (2) each of the statements made in this Certification is true, complete and correct, and made in good faith; and (3) I have reviewed such documents and have made such inquiries and investigations as I have considered necessary and advisable to verify the matters set out in this Certification. I further certify, represent and warrant to Lender and to Freddie Mac as follows:

- The photographs, video files, audio files and/or any other representations of the Property provided to Lender and/or Freddie Mac in connection with the making of the Loan, and in any third-party reports, to the extent such third-party reports are made available to Borrower, (collectively the "Property Inspection Materials") are representative of the Property and present an accurate and complete depiction of the Property, its condition, facilities, installed systems, key components, amenities and other characteristics. A list of the Property Inspection Materials is set forth in **EXHIBIT A** to this Certification.
- There is no construction underway at the Property (other than repairs or capital replacements in the ordinary course of business).
- Borrower has no knowledge of any material conditions or characteristics of the Property that are not disclosed in the Property Inspection Materials or that have not been otherwise disclosed in writing to Lender.
- Other than as shown or disclosed in the Property Inspection Materials, no material systems or key components of the Property are expected to require replacement or significant repair during the term of the Loan, unless otherwise disclosed in writing to Lender.
- Except as disclosed below, the fixtures and systems contained in any residential units that were not able to be inspected by Lender, Freddie Mac, their consultants, and/or other third parties as

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Small Balance Loan (SBL) COVID-19 FAQs

- Will the 12-month Debt Service Reserve (DSR) be required on all loans?
Yes, the DSR will be required on all loans and will be documented in the Freddie Mac Commitment. The Loan Agreement rider will be attached to the Commitment.
- Will deferred due diligence items be required to be completed prior to rate lock?
No. Borrowers and lenders may proceed to rate lock with one or more of the deferred due diligence items outstanding if the list of deferred due diligence items is satisfactory to Freddie Mac. Freddie Mac has received other acceptable interim information regarding the property condition, the borrower has executed the Property Condition Certification (if necessary), and the DSR is in place. Note that one of the release provisions for the DSR is to complete all deferred due diligence items to Freddie Mac requirements.
- Is the DSR calculation based on Interest Only (IO) payments if the loan commences with an IO period?
No, the escrow is based on Principal and Interest (PI) payments, regardless of any IO period.
- Does the 12-month DSR satisfy the 9-month liquidity requirement?
If the property is cash-out refinance, the borrower will need to have 9 months of liquidity, without including any cash-out from the subject. If the transaction is an acquisition or cash-in, the sponsor's liquidity will need to cover, at a minimum, the 12-month DSR.
- If the recording office is closed, how do lenders show evidence the office has received the request to record?
If a recording office is closed, they must still be offering electronic recording for the loan to move forward.
- Will the Borrower be allowed to enter into a Forbearance Agreement when DSR is in place?
Yes, however, no disbursement of the DSR will be permitted during a forbearance period.
- Can borrowers elect payments be withdrawn from the DSR over the full year?
The borrower can make the request at 12 months if the property's rental collections are operating below break-even during that time. The level of break-even rental collections will be calculated using the underwriting numbers and not included in the Commitment and Loan Agreement rider.
- Are normal underwriting parameters still in effect (M for 90, T 3 collections, etc.)?
Yes, in addition, programmatic exceptions listed are still available for Processor. We will continue to carefully review the economics of the transaction, market, sponsor, and collateral position to ensure we are making prudent lending decisions.
- What are the DSR release calculations?
Let's break it down:
Break-even Rental Collections - This is the monthly amount of residential and commercial income that supports a 1.0x DSR for your loan on an amortizing basis.
Release Rental Collections - This is the monthly amount of residential and commercial income that supports the policy-compliant minimum DCR.
Release Occupancy - This is equal to 80%.