



SBL UPDATE

Small Balance Loan (SBL) Credit Roundtable Q&A

This week we are closing out our Q&A Series by responding to questions that were submitted during our SBL Credit Roundtable a couple of weeks ago.

Q: How are code violations handled? The treatment of code violations seems to vary by deal and jurisdiction.

A: Generally, code violations are treated similarly across the country when the information is available. Both the nature and number of violations should be taken into consideration. While a small number of violations may be acceptable, depending on their significance, a higher violation count could be an indication of more material issues.

We realize there may be a lag in clearing the violation from the municipality at times. In these instances, we will look for evidence that the violations have been corrected during the site inspection. We also look for the field engineer to confirm there are no open violations via their inspection of the property. Searching city websites is a good start to identify any possible building code violations that may be present at the subject property. If there are specific unit violations, these units should be identified for inspection. In cases where it appears that violations may have been corrected but are yet to be removed

from the municipality's violation database, the engineer may include a repair expense for an expeditor to remove the violations.

Q: How does Freddie Mac view collections on subsidized units where the tenant portion is past due?

A: A thorough understanding is needed to make a determination on how to underwrite delinquencies on the tenant portion of the rent for a subsidized unit. If the tenant portion of the rent for a subsidized unit is substantial and the delinquency is pervasive, then it may warrant underwriting the unit as vacant. If the tenant's portion is less substantial but pervasive, then underwriting the delinquency as bad debt may be acceptable. A prescreen is warranted if a substantial amount of the tenant portion of the rent for a subsidized unit is delinquent. The lender should also determine if eviction proceedings have been initiated and how this would impact final underwriting. Please refer to our [Collections Guidance](#) for further information.

Q: What is Freddie Mac's stance on allowing loan packages to be submitted where the property may have critical repairs identified by the engineer that have not been corrected?

A: Generally, it is best practice to have critical repairs corrected prior to loan submission as post-submission repairs may delay the draft commitment letter (DCL) and lead to pricing increases on the deal. Although we would expect this to only occur in rare instances, if critical repairs are not addressed at the time of submission, then the outstanding repairs should be minor in nature and easily corrected within the time between deal submission and DCL issuance in order to pass check-in. If the loan still fails check-in but appears to have followed those guidelines, please reach out to the regional manager who can work with you and the analyst to address the issue.

Q: Is it possible for lenders to select 2x the required units and Freddie Mac to select units from this set for the site inspection?

Send Date: June 2, 2023

A: At this time, we cannot accommodate this suggestion, but will raise it for consideration as an amendment to the *Multifamily Seller/Service Guide* (Guide) –specifically [Chapter 8SBL.15\(b\)](#) which applies to SBL.

The SBL Guide requirements state that Freddie Mac must select units for the inspection and the seller must instruct borrowers to provide notices to the selected units. The borrower must provide advance site inspection notifications to a minimum of 10 units. If a property has 10 or fewer units, the borrower must provide notification to all tenants. The number of selected units for which the borrower must provide notification to tenants must be sufficient for the inspected units to meet lease audit requirements.

We hope this provides some more clarity. Thank you for submitting your thoughtful questions; we are always happy to provide further guidance.