



SMALL BALANCE LOAN UPDATE

Update on SBL Credit and Underwriting

We asked you, our OptigoSM lenders, for feedback about how to improve the SBL underwriting process. We're now ready to act on your feedback and our own review of the business; we will be incorporating changes in a mutual goal to gain more efficiencies and control of our Credit Box. Effective today, August 5, we updated the [Exception List](#) on our website, and the following changes will be in effect for all loans taken under application going forward.

Acquisition Lean-in Financing has been eliminated. For all portfolio loans in process or in the future, please discuss with your Production liaison.

All applications will have 45 business days from the date of execution to be submitted to Freddie Mac. Any prior programmatic exceptions and pricing exceptions issued the week of July 28, 2019 will require a signed application within five business days of the approval, which will be no later than August 9, 2019. Any loan that surpasses the 45-business day mark will need to be discussed with the Freddie Mac Producer. Any loan currently at 40 days since the date of application as of Monday, August 5, 2019 will need to be submitted to Freddie Mac by August 9, 2019, no exceptions. Any loan greater than 45 days as of August 5, 2019 will default to a rate that is the higher of existing grid or current grid.

We added/modified the following exceptions to the current list.

- **#1** (added) If the borrower is an Individual or Sole Proprietor, a prescreen is required
- **#4** Minimum loan size is \$1 million, no exceptions will be granted. All loans sized \$1 million to \$1.2 million will require a prescreen.
- **#8** We will require an underwritten vacancy of 10% for all loans with a commercial concentration between 40-50%. We will also require TI/LC's be underwritten.
- **#31** Has been modified to read "Single employer (25%+), non-profit/transitional units (25%+), and corporate (25%+)"
- **#32** All link loans will require a prescreen

The following programmatic exceptions are being removed and do not allow for a path forward.

- **#1** DCR and LTV outside of program parameters
- **#5** Loan does not pass the Hybrid Stress Test in non-top markets
- **#6** Loan does not pass the Maturity Test
- **#7** Partial or full-term IO is not policy compliant
- **#9** Underwritten collections NRI is > Rent Roll NRI at the time of underwriting
- **#29** Residential or Commercial Tenant Leases are not available
- **#33** Cardinal Housing, Illinois Land Trust, Ground Lease, Micro Units
- **#38** Any private well or septic system
- **#40** Underwriting below a 5% economic vacancy

The following programmatic exceptions have been moved to credit risk.

#19 and #20 under the previous programmatic exception list is now included in #1 as the following Credit Risk:

- **Credit Risk update #1** Limited operating history or inconsistent reporting (i.e., missing 1st, 2nd, or 3rd year historical property financials, monthly property financials not produced, large amount of capital expenditures expensed without detail, etc.). Missing 2nd year stabilized historical property operating financial statement for (1) refinance where the property maintained stabilized operations during that historical year or (2) acquisition by non-local sponsor in any market or (3) any loan in Small or Very Small Market.

Rent Stabilized/Rent Control

Loans greater than or equal to 50% rent stabilized/rent controlled must pass the Hybrid Stress test in all markets/jurisdictions that have rent regulations.

In the state of New York all loans for properties with rent stabilized units must additionally be sized based on the [NYC rent stabilized property loan sizing tool](#) posted on the Freddie Mac Multifamily website under the References and Tools tab. This tool will adjust for value and loan maturity. Due to the impacts of the recently approved New York state rent stabilization law, we will require this tool to screen all loans. The Optigo lender must provide this prior to securing an application with the borrower.



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This email was sent to: Jennifer_Chamberlain@freddiemac.com

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8200 Jones Branch Drive, McLean, VA 22102