



SMALL BALANCE LOAN UPDATE

Freddie Mac Staff:

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Small Balance Loan Business



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Vice President
SBL Underwriting

SBL Q4 OptigoSM Lender Call

Join Steve, Catherine, Dave and Meg for a Q4 conference call update on SBL business strategy, process and volume goals. Please note this call is only for approved SBL lenders.



Wednesday, October 2

1 p.m. ET

[Register here](#)

Effective for SBL loans taken under application on or after 9/24/19

We have worked successfully with you, our Optigo SBL lenders, over the past few years to develop and implement sound processes for sourcing, underwriting and securitizing SBL multifamily mortgages. These processes are based on a comprehensive due diligence program that relies on multiple sources of information and analytics that allow us to gain confidence in the economic integrity of the mortgages we buy. A big part of our collective success is our continuously evolving underwriting standards. This strategy has translated into consistently low delinquency rates and default and loss rates well below what is being experienced by the industry.

As our SBL program is heading into its sixth year, we continue to implement best practices for this business. Below are our latest updates.

Cash-Out Refinance Updates

We all recognize that property operations must appropriately support cash-out refinances. We've identified several factors as particularly important in making these determinations and are adjusting our requirements accordingly.

A refinance with cash-out to the sponsor must be supported by income growth at the property. We have provided a [SBL Refinance Analysis](#) on our website as a guideline for the appropriate level of proceeds.

Prescreens with Freddie Mac production staff will now be required before placing a transaction under application or entering into PMT for the following cash-out refinance loans with cash-out >15% (based on the SBL Refinance Analysis) as follows:

Top Markets: >75% LTV or <1.25x DCR

Standard Markets: >75% LTV (minimum 1.25x DCR will apply)

There are no changes to LTV/DCR for cash-out refinances in Small and Very Small Markets.

Inspection Updates

We currently provide you with the option for delegated inspections in Top Markets. Due to the property inspection's crucial role in risk evaluation, going forward, we have decided to adjust our inspection processes as follows:

- A Freddie Mac inspection will be required for all properties in Top Markets. The Seller delegation in Top Markets is no longer in effect. When Freddie Mac is performing a full property inspection, a member of either your Underwriting/Credit or Production team may perform the lender inspection.
- There may be transactions where Freddie Mac chooses to delegate a property inspection on an ad hoc basis. If the inspection is delegated, a member of your Underwriting/Credit team must perform the delegated inspection.

Additional Documentation required at submission of Full Underwriting Package:

Refinance loans:

- Payoff letter(s)
- If cash-out exceeds 15% of UPB, 3 months of bank statements showing rental deposits

All loans:

- Certified 12-month occupancy statement
- Confirmation that title searches, public record searches and property/borrower/sponsor web searches have been completed and reviewed
- **NOTE:** Underwriting Package delivery will fail without this confirmation

Sponsor Financial Strength

All loans:

As the SBL program has become established over the last 5 years, we appreciate many of our sponsors' repeat business. As we continue to focus on our sponsors' financial health, we will be closely evaluating each sponsor's total real estate holdings with an eye to:

- the sponsor's net worth and liquidity
- the sponsor's organizational capacity to manage increases in portfolio holdings

Please pay special attention to these items when outlining the financial strength of both new and repeat to SBL sponsors.

We appreciate your support in working with us as we continue to improve our SBL program.



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