



Keep the Process Moving: Tips to Help Your Deal Stay on Track

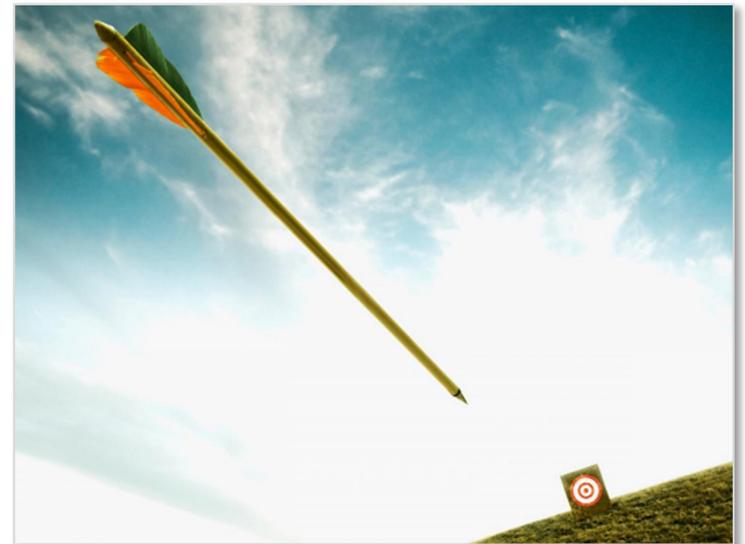
2016 Regional Seller Workshops



Key Takeaways

By the end of today's session you will learn the following concepts:

1. How to identify and resolve key issues during the Quote and Underwriting stages
2. Why it is important to be proactive about communicating changes in the deal
3. Identify areas of improvement within our execution



Scenario 1: Conditions of Quote Sheet Not Met



- Producer clearly identifies conditions in the Quote Sheet to qualify for the deal terms presented and they are not supported in the due diligence
 - » Failure to meet the conditions will likely result in changes to UPB, quoted net spread, etc.
 - Example #1 – **Stated collections level not achieved**
Resolution - change in underwriting to reduce collections and resulting NOI decreases UPB due to DSCR constraint
 - Example #2 – **Compliant insurance is assumed, but waivers needed**
Resolution – pricing must be increased in order to offset additional risk posed by exceptions to standard requirements
 - Example #3 – **Underwritten expenses not supported by appraisal**
Resolution – change in underwriting could result in either lower UPB or higher net spread

Scenario 1: Conditions of Quote Sheet Not Met, Cont'd

Let's keep the process moving...

- » Know what the Quote Sheet says (read it!) and familiarize yourself with the various stipulations
- » Understand that last minute tweaks to loan amount, buy-ups, etc. may have to be repriced which can take additional time



Scenario 2: Credit Policy Exceptions



- Loan requests or underwriting packages featuring credit policy exceptions that are not clearly identified and thoughtfully addressed can lead to the following issues:
 - » Additional analysis and approval required
 - » Unrealistic expectations for the Borrower/Sponsor
 - » Uncertainty on the part of the Underwriter in terms of what was actually approved and considered in the Quote
- As early in the process as possible, alert the Underwriting team if any of the conditions will not be met, so that you can strategize about how to limit potential impacts to the deal
 - » Be proactive about offering solutions or potential mitigants

Scenario 2: Credit Policy Exceptions, Cont'd



- Examples of common exceptions and the types of potential mitigants supported by further analysis:
 - » Additional interest only
 - Conservative development of NOI
 - Loan passes the refinance test, with “outgoing UPB as percentage of current value” equal to or less than 70%
 - Strong multifamily submarket fundamentals
 - » Financial wherewithal of Guarantor not meeting requirements
 - Guarantor’s overall real estate experience and prior deal experience with Freddie Mac
 - More conservative underwriting parameters and sizing
 - Financial resources of other members of org structure

Scenario 2: Credit Policy Exceptions, Cont'd

Let's keep the process moving...

- Review Freddie Mac parameters for the offering using our Term Sheets on [Freddiemac.com](https://www.FreddieMac.com)
- Consult the Seller/Service Guide, especially in terms of due diligence requirements
- Clearly identify the policy exception and provide mitigants or rationale to support the exception including:
 - » Credit
 - » Relationship
 - » Prior Deals
- Maintain open lines of communication with your Freddie Mac Producer and Underwriter



Scenario 3: Last Minute Insurance Issues



- Insurance typically comes in at the very end of the underwriting process due to its dependency on a variety of factors (EGI for business interruption coverage, zoning status, etc.)
 - » Premium affects pro forma building - NOI cannot be finalized until the insurance is tied-down
 - NOI then impacts pricing, sizing, and refinance test
 - » Insurance waivers often take significant time to work through
 - May require additional approval or review outside the region
 - Can have pricing impact
 - Could require additional document modification if waiver is granted for the term of the loan

Scenario 3: Last Minute Insurance Issues, Cont'd

Let's keep the process moving...

- Submit final Form 1133, not draft
 - » If final not available, provide final premium to finalize pro forma building/sizing
 - » Include a condition in the commitment that final Form 1133 evidencing compliant coverage and a premium of not greater than underwritten level be provided prior to origination
- Submit all waivers as early as possible
 - » Identify waivers granted on previous deals with sponsor, if known
 - » Submit all waivers via the Insurance Compliance Tool (ICT)
 - » Ensure waiver request is thoughtfully presented with thorough analysis of risk and mitigants



Scenario 4: Reviewing Third Party Reports



- Third Party Reports (Appraisal, Engineering and Environmental) are not thoroughly vetted for corrective actions prior to sending the package to Freddie Mac
 - » Issues include the following:
 - Guide requirements for unit inspections, testing, etc. not being met
 - Open issues in PCRs and Phase I reports
 - Appraisals not supporting conclusions or providing thoughtful justifications (i.e. determination of sales comps, derivation of expenses, etc.)

Scenario 4: Reviewing Third Party Reports, Cont'd



Appraisal where sales comp approach is not well supported:

Year Built: 1972

Comparable Property Built: 2004

No.	Property Name Address, City, State	Land (\$)	Year Built	Year Renovated	No. of Units	Size	Quality	Cond.	Grantor	Grantee	Sale Date	Sale Price	\$/Unit	NOI/Unit	OAR	Coop.	C
S	Subject Property	1,121,744	1972	N/A		549	Average	Average									
1	[REDACTED]	927,695	1966	-		901	Average	Average	Confidential	Confidential	Dec-15	\$27,000,000	\$85,101	\$4,216	4.70%	-	Th re to be si pr
2	[REDACTED]	842,015	2004	-	184	1,035	Good	Good	Listing	Listing	Nov-15	\$22,000,000	\$119,565	\$7,174	6.00%	94%	Th to si in
3	[REDACTED]	871,200	1973	-	345	961	Average	Average	Windy City RE	BWIP MPG Owner LLC	Dec-14	\$33,000,000	\$98,000	\$6,256	6.50%	97%	Th to si in
4	[REDACTED]	544,936	1974	-	300	751	Average	Average	Forest Cove Venture LP	FC&PE LLC	Dec-14	\$26,250,000	\$87,500	\$5,717	7.00%	96%	Pr or fo re di the pr
5	[REDACTED]	762,736	1978	-	346	801	Average	Average	Eagle Creek Apartments LLC	Canyon Capital Realty Advisors LLC	Jul-14	\$28,250,000	\$81,647	\$5,717	7.00%	96%	Th wt ct pr
6	[REDACTED]	755,766	1966	1999	400	971	Good	Good	Redwood Capital Group/Metlife	Investcorp Int'l	Nov-13	\$38,500,000	\$96,250	\$6,256	6.50%	97%	Th Th ct pr cl pr

Comparable Property Sale Date: 2013

Scenario 4: Reviewing Third Party Reports, Cont'd



Phase I report where potentially friable ACMs were not specifically identified or tested per Guide requirements:

Based on the pre-1989 date of construction, it is possible that friable and non-friable ACM is present. Suspect materials observed during the property reconnaissance include vinyl flooring, vinyl flooring mastic, textured coatings, lay-in ceiling panels. The vinyl flooring and mastic were observed in the kitchens and bathrooms of the living units. Approximately 50,000 square feet of textured coatings were observed in the apartment units. Approximately 1,000 square feet of lay-in ceiling panels were observed in the club house. The suspect materials were observed to be in good condition.

Scenario 4: Reviewing Third Party Reports, Cont'd



Phase I report where additional study is required (Phase II):

- Phase II & Monitor - Based on the information, the likely source of the petroleum contamination found in the soil and the low levels of VOC's found in the groundwater at subject Property is from the improper releases of these contaminants from the adjacent shopping center. [REDACTED] recommends a vapor encroachment study be conducted to determine if the low levels of VOCs in the ground water and TPH-DRO in the soil pose a soil vapor intrusion risk with respect to the nearby residential buildings. In addition, [REDACTED] recommends that a release incident be reported to the VADEQ and the identification of a responsible party be confirmed. Furthermore [REDACTED] recommends monitoring the progress of future investigations at the adjacent shopping center.

Scenario 4: Reviewing Third Party Reports, Cont'd



PCR report with open, unresolved issue requiring additional investigation:

Concerns:

Cracks or settlement

No significant foundation cracks or settlement were noted or reported in the foundation. However, hairline vertical cracking was observed in the exterior facades of nearly every building on the property. A large vertical crack was noted on the exterior of the south side of [REDACTED]. While no cracking was observed on the interior side of this crack, interior cracking was noted in the drywall in [REDACTED] located upstairs in the opposite corner of the building. Furthermore, a pipe have recently burst in this unit. This cracking and pipe bursting may be due to foundation settling.

Insufficient exposed slab

The slab is not visible, most likely due to the presence of grade walls.

Flooding/water damage

No major areas of flooding or water damage were noted or reported.

Other

No additional concerns relating to the substructures were noted or reported.

Recommendations:

Based on the extent of concerns noted, [REDACTED] recommends a structural engineer with experience in this geographic region to conduct a more detailed evaluation of the buildings. An estimated cost for this evaluation is included in the Immediate Needs Table.

The foundations should be maintained as part of routine maintenance.

Scenario 4: Reviewing Third Party Reports, Cont'd



Let's keep the process moving...

- Use the following guidance to help the funding process:
 - » Stay current on *Guide* requirements and be proactive about asking questions
 - » Ensure that conclusions are thoroughly supported
 - » If the analysis provided in the reports is incomplete or inconclusive, follow up with the consultant prior to submission
 - » Do not rely on the Freddie Mac underwriter to identify problems/issues with the report – by the time it is submitted it is generally too late in the process to easily achieve resolution