

# SBL

## from Funding to Securitization

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# SBL Loan Compliance

- Per Guide Chapter 40, Freddie Mac requires Servicers to perform periodic Assessments of each Property to assist Freddie Mac in preventing defaults and losses through the early detection or risk
- Loan Compliance Monitoring and Reporting process provides Servicers with a tool to communicate borrower's compliance with regard to required repairs and other requirements under the loan agreement
- Freddie Mac's Property Reporting System (PRS) facilitates the collection and validation of assessments, the indication of required Loan Compliance items by Freddie Mac, and the updating of Loan Compliance items by the Seller/Servicer

# Assessments – Small Balance Loans



- Reporting requirements for SBL loans include the following:
  - » Annual financial reporting
  - » Quarterly financial reporting only if the loan is on the Watchlist if the loan is Risk Rated > 6, or for certain loans > \$5M
  - » Inspection reporting the first year after funding and every other year thereafter. If the loan is on the Watchlist or Risk Rated > 6, inspections will be required annually
  - » LMF is required when a loan does not securitize in the first year of funding

| Assessment Type         | Due Date                               |
|-------------------------|--|
| A-CREFC HC & A-CREFC-MF | 5/31                                   |
| Q-CREFC HC & Q-CREFC MF | 5/31, 8/31, & 11/30                    |
| Inspection and LMF      | Originally set as quarter of Note Date |

🕒 Same reporting requirements before and after securitization, excluding LMF

- Servicers are responsible for reviewing the loan documents for each loan to ensure that the borrower is following the reporting requirements of the loan
- Within five days after funding, we review loan documents and third party reports to enter all Loan Compliance date specific items into PRS for which we will need updates
- Servicers are responsible for reviewing the Loan Compliance Due Queue in PRS for items with due dates in the next 30 days and providing updated comments as the due date comes closer
- If applicable, Servicers will also need to address Deal compliance related questions/concerns, as they come up

# SBL

## Surveillance & Master Servicing Functions

- Surveillance personnel review the assessments submitted by the Servicer pre-securitization in much the same way as they review them post securitization
  - » Financial Assessments
    - Abbreviated review on all
    - Risk related, anomaly, and sampling trigger a deep review
  - » Follow the CREFC standard regarding comments (i.e. greater than 20% or other anomalies should be detailed)
  - » “Preceding Yr.” column of the OSAR should always have annual data. “Most Recent” column is reserved for quarterly updates
  - » Prior Annual data to be pre-populated in form for 2017 reporting

- Risk related reviews for inspections and Loan Management Forms (“LMFs” are not required post-securitization)
  - » 29 individual exception review criteria can cause an AIF review (9 of 29 criteria have a direct impact on a loan’s Risk Rating)
  - » Any negative response or comment will cause a review of an LMF

## Assessment Return Procedures

- If mistakes are noted on any assessment type, the assessment is returned in PRS to the Servicer for correction
  - » Analysts will contact Servicer prior to returning the assessment to communicate issues and determine if a mistake was made
  - » Generally, Servicers have 5 business days to correct and re-submit once the return is received. However, sometimes we ask for more immediate action depending on the reporting cycle
- Return stats and reasons are included in the annual Seller/Servicer Performance Review (SSPR)

# Investor Reporting Package



- Primary Servicer submits the reports below to the Master Servicer on the next business day after the Determination Date, which is typically the 11<sup>th</sup> of the month.
  - » Loan Periodic File
  - » Remittance / Collection Report
  - » Financial File (not required for most deals)
  - » Property File
  - » Comparative Financial File
  - » Watchlist Report
  - » Loan Level Reserve/LOC Report
  - » REO Status Report
  - » Delinquent Loan Status Report
  - » Advance Recovery Report
  - » Historical Loan Modification/Forbearance and Corrected Mortgage Loan Report
  - » Total Loan Report

## Investor Reporting Package (cont'd)



- Freddie Mac reviews Primary Servicer submitted data and makes necessary changes such as Ending Scheduled Balance, etc.
- Freddie Mac checks for consistency throughout the reports.
- Special focus is spent on the following two Reports:
  - » Watchlist Report
  - » Reserves Report
- Freddie Mac submits the package to Trustee four days after the Determination Date.

## ■ Best Practices

### » Consistency

- Relevant data should be consistent throughout all reports.
- For example, the YE15 DSCR should match in the OSAR, NOIWS, Comparative File, Property File, Loan Periodic file, and Watchlist file.

### » OSAR & NOIWS

- Special attention should be paid for any loans currently on the Watchlist or anticipated to be on the Watchlist per the submitted statement
- Ensure OSAR & NOIWS are submitted to Freddie Mac for all loans which have financial data reported in the IRP package (i.e. if updated information is provided in the IRP package, the corresponding NOIWS & OSAR should have been submitted to PRS)
- PRS cut-off date for data to be included in IRP reports is the 5<sup>th</sup> calendar day of the month. Exceptions may be made based on risk

## ■ Best Practices

- » Complete the Watchlist report in its entirety. Often, erroneously left blank.
  - Prospectus Loan ID
  - Current Ending Scheduled Balance
  - Preceding FY DSCR NOI/NCF
  - Most Recent Physical Occupancy
  - Most Recent Occupancy As of Date
- » Double-check Reserves report to ensure consistency with LPU and ensure ending scheduled balance from prior month is equal to beginning scheduled balance for current month
- » Notify Freddie Mac of property condition or operational concerns outside of CREFC or AIF submission (i.e. – life/safety, hazard loss) as soon as possible

## ■ Watchlist Reporting

- » Prior to Securitization, loans are identified for risk through our internal Risk Rating protocols
- » Post Securitization, the SBL Watchlist standards follow the standard CREFC Servicer Watchlist criteria
  - Quantitative thresholds (i.e. occupancy and DCR) are not judgment based
  - Qualitative factors (i.e. deferred maintenance) require some judgment

- Hazard loss reporting post securitization follows the same process as reporting pre-securitization
- Chapter 43.8 of the Guide details the correct protocol
  - » 1140, Part I must be submitted no later than 7 business days after learning that a loss or damage has occurred
  - » 1140, Part II must be submitted no later than 30 business days after learning of the loss or damage
  - » Freddie Mac approval of the monitoring plan and entry into CRT is required if any of the following are true:
    - Mortgage is in default
    - Loss exceeds or expected to exceed the lesser of 20% of the UPB or \$5 million
    - Mortgage has a Risk Rating greater than 6  
(or is currently on the Watchlist)
    - Insurance coverage is insufficient to cover the loss

- **[MF\\_Master\\_Servicer\\_SBL@freddiemac.com](mailto:MF_Master_Servicer_SBL@freddiemac.com)**
  - » Notices regarding SBL loans post-securitization
  - » Assessment (CREFC and AIF) completion questions
  
- **Freddiemac.com > Multifamily > Asset Management > Resources > PRS**
  - » PRS Annual Inspection Form (AIF) Desk Reference
  - » PRS CREFC Individual Desk Reference
  - » PRS CREFC Data Validation Chart

# SBL Insurance

- No changes were made to Freddie Mac's Insurance Guide to adjust coverage requirements specific to SBL loans
- The decision on the adequacy of insurance coverage in place is delegated to the Seller/Service
- The minimum coverage limits in the Guide are referred to as Recommend Insurance Standards for SBL loans
  - » Freddie Mac relies on the Seller/Service to represent coverage as adequate or within market for the risk insured
  - » Where coverage differs from the Recommended Insurance Standards, the Seller/Service documents the difference in its Coverage and Gap Reporting
  - » The Coverage and Gap Reporting submission includes information to support the gap as adequate or market for the risk insured, however; unlike a waiver request, Freddie Mac simply accepts the Coverage and Gap Reporting as opposed to the approval process for a waiver request

- Pre-securitization
  - » Just like non-SBL loans, the Servicer must submit a Form 1133 in ICT for all SBL loans
  - » Until system enhancements can be made, the existing Waiver form is used for the submission of Insurance Gaps
  - » Policy renewals are documented in ICT by using the Update Summary function
  - » Only new gaps that were not reported during underwriting need to be submitted for subsequent policy renewals
- Post-securitization
  - » Exhibit G of the Sub-Servicing Agreement should be delivered to Freddie Mac within 15 days after settlement
  - » The status of insurance policies is confirmed quarterly as part of the Quarterly Servicing Certification, or Exhibit E
  - » New gaps continue to be reported via ICT

# SBL Loan Administration

- Key Differences with SBL
  - » Single Counsel
  - » Streamlined delivery – single final delivery package
- Tips for Cleaner Delivery
  - » All documents should be uploaded electronically prior to physical delivery
  - » Upload to the applicable document type according to the Table of Contents mapping
  - » Original documents should be forwarded to Document Custody – not an individual
  - » Documents should be complete and accurate
  - » Include loan number reference on all deliveries – new transmittal form coming