Freddie Mac MULTIFAMILY

1/26/2017

SBL EXCEPTIONS & CREDIT RISKS

Programmatic Exception (**requires** SBL Exception Form & FRE quote approval/"prescreen"*)	
Deviation from SBL program requirement	
#	**Risk Description**
1	DCR or LTV not policy-compliant
2	Loan Size >$5MM or <$1MM
3	Loan does not pass hybrid stress test (1.00x DCR at 250bps over initial fixed rate) when required
4	Loan does not pass maturity test (>70% LTV on exit UPB/origination value) when required
5	Partial or full term IO not policy-compliant
6	Commercial GPR or gross area > 40% of total GPR or total square footage
7	Underwritten collections (NRI) > rent roll NRI submitted with underwriting package
8	Guarantor(s) FICO score <650
9	Borrower principal net worth (1x UPB) or liquidity (9 months amortizing debt service) requirement not policy compliant
10	Tax abatement without required documentation or cashflow analysis test
11	Inspection by third party or Seller not policy-compliant (e.g. fewer than minimum required units inspected per Guide)
12	Subject's three consecutive month physical occupancy average is less than 90% (85% if subject property is located in a Top Market or an acquisition with experienced borrower or <30 units)
13	TIC has non-SAE entity co-borrowers, lacks TIC Agreement with designated manager or has more than 5 co-borrowers
14	Missing trailing monthly property collections for previous three months (12 months preferred)
15	Rent roll dated past 45 days of underwriting submission
16	Missing YTD or T-12 historical property operating financial statement
17	Missing previous full year of property operating financial statement
18	Missing 2nd year 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
19	Uncertified/non-legally occupied or marketed residential or commercial unit
20	Sponsor or controlling member resides more than 100 miles from subject property and third party management with local experience is not operating the subject property
21	Customized loan document modification/ non-preapproved rider (i.e. > 20% of initial leases have terms of <6 months)
22	Subject property does not qualify for omission of load test parameters between 40amps and 60amps (see SBL S/S Guide) or <40 amp and no receipt of satisfactory Engineer load test prior to rate lock
23	Violent, drug related or persistent pattern of lesser crimes at the subject property in past 5 years
24	Underwriting to a management fee less than market or contract
25	Borrower principal has material negative credit history (e.g. felony or financial criminal record, bankruptcy, foreclosure/short sale, material historical litigation and/or pending litigation)
26	Carve-out Guarantor waived or foreign carve-out Guarantor without institutional & US multifamily experience and 2x net worth & liquidity minimum
27	Affordable restrictions: any rent/income restricted property >50 units or any affordable property <50 units with a HAP contract, LURA with >24 months in investor recapture period, non-profit borrower/GP or subordinate debt
28	Residential tenant leases do not exist at the subject property
29	Loan to cost >80% within 1 year of changing ownership (refinance or acquisition)
30	Tenant concentration of military (50%+), student (50%+), single employer (25%+), non-profit/transitional units (25%+), corporate (25%+) or master lease (25%+)
31	Any non-contiguous buildings under one loan, or aggregation of contiguous buildings under one loan where the subject buildings' rents, risk profile, unit configuration, lease structure, etc. are dissimilar; property is not marketed and managed together; or property cannot aggregate property financials going forward
32	Cardinal housing property, Illinois Land Trust, preferred equity, ground lease, reverse 1031 exchange, seniors housing with any on-site services or >25% of units <250 square feet ("Micro Units")
33	Commercial vacancy underwritten at < the greatest of actual, market, or 10%, and/or no TI/LC expense underwritten when commercial GPR > 5%
34	When owner occupied or owner affiliated unit (non-income producing), underwritten DCR is less than minimum programmatic market DCR (without owner's unit income included in NOI) or less than 1.00x DCR (without owner's unit income included in NOI) but includes collection verification of owner occupied unit rent to SAE borrowing entity or base recourse
35	Very Small Market loan (include any underwriting document exceptions and historical property financial statement availability)
36	Any Nonresidential lease operating under a non-standard or controversial public use (i.e. a liquor store; a gun shop or firearm range; so-called massage parlor or any business which sells, rents or permits the viewing of so-called "adult" or pornographic materials; an off-track betting parlor or arcade; operation of a so-called "head shop"; a burlesque or strip club; or any illegal activity)
37	Any private well(s) or septic system(s)

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Credit Risk (requires sufficient mitigation in Seller ASR/investment brief but does **not** require SBL Exception Form**)	
Any material credit risk to the transaction that is not defined in the above category	
1	Limited operating history or inconsistent reporting (i.e. missing 2nd or 3rd year historical property financials, monthly property financials not produced, large amount of capital expenditures expensed without detail, etc.)
2	10%-50% tenant concentration (military, Section 8 vouchers, student, single employer or corporate)
3	Underwritten expense ratio <30% or below FRE portfolio submarket range
4	Individual, corporation, MAE or TIC borrower with the applicable loan document provisions
5	High number of criminal incidents in subject's neighborhood but not at subject property
6	Underwritten management fee <5%(<30 units' benchmark), but equal to or greater than market & contract
7	Volatile or irregular historical income or expenses
8	Subject property units' interiors are significantly inferior to subject area and risks obsolescence or significant capital expenditures during loan term
9	Underwritten collections above T-3 (*but below rent roll*)
10	1 unit vacant generates < 1.00x underwritten DCR
11	Down unit due to unit damage
12	Tertiary market or perception of market volatility
13	Subject rents are above market/comparables
14	Commercial lease expiration within 6 months of origination or non-credit commercial tenant with newly established lease
15	High % of rollover MTM leases (initially offered MTM leases are limited to 20% per Loan Agreement)
16	Subject's property management lacks local experience
17	Guarantor(s) with fewer of 2 years' MF ownership experience or no units currently owned
18	Carve-out Guarantor is not an individual
19	Declining collections
20	Subject property was purchased out of foreclosure or receivership by current sponsor
21	Flag lot or undesirable location or impaired visibility from public access road
22	Unusual easement or shared amenities
23	Material amount of open code violations
24	Cashout loan proceeds
25	Loan to cost >80% within 1-2 years of purchase
26	Environmental concern (REC, UST, soil contamination, historical issue, etc.)
27	Stressed valuation (ex. cap rate/value per unit/GRM top of comparable range, value conclusion lacks comparables sales, inputted underwritten cap rate materially different than Appraiser's concluded direct cap rate, etc.)
28	Significant year over year historical subject property rent growth above subject's market and underwritten income only supported by T-3 collections or less
29	Underwritten vacancy below sub-market vacancy (generally REIS and Appraiser vacancy conclusion reliance)

* If a full underwriting package is delivered with a Programmatic Exception and an SBL Exception Form was not submitted prior to delivery of the full package, the **loan turnaround time, pricing,** and **Seller's performance review** will be impacted.

**It is best practice for SBL Seller/Servicers to prescreen the exceptions listed below with the regional SBL Production office based on significant impact of an individual "Credit Risk" or combination of multiple "Credit Risks". This prescreen is intended as a vetting of the issue(s) and is not a formal exception. This approach should prevent changes to proceeds, increased pricing or other requirements during Freddie Mac underwriting review.