



Bulletin

NUMBER: M2016-5

TO: Freddie Mac Multifamily Sellers and Servicers

September 1, 2016

SUBJECTS

With this Bulletin for the Multifamily Seller/Servicer Guide (Guide), Freddie Mac is making the following changes:

- Eliminating our requirements for delivery of Seller OFAC certifications, FHFA SCP List certifications and Exclusionary List certifications with the underwriting package (Seller/Servicers must continue to screen applicable parties against the OFAC, FHFA SCP and Exclusionary Lists as otherwise required by the Guide)
- Applying the same consolidated final delivery process to both SBL and non-SBL Mortgages
- Revising our environmental requirements to clarify when Freddie Mac will permit remediation of an environmental deficiency after the Origination Date and to specify that for an SBL Mortgage, a Repair Reserve must be at least 100 percent of the amount of any remediation contract
- Updating our seismic requirements as a result of new standards from the American Society for Testing and Materials (ASTM)
- Adding a requirement for sizing acquisition Mortgages
- Adding a clarification regarding minimum origination fees for SBL Mortgages
- Providing a new table of Servicing Spreads for conventional cash and Supplemental Mortgages
- Revising the seasoning requirement for a First Mortgage
- Revising the Guide to reflect recent changes to our Seller/Servicer designations and our requirements for co-marketing with the Freddie Mac Multifamily name, logo, graphic or offerings
- For Forward Commitments, requiring an environmental assessment report at time of Conversion and specifying that the Chief Architect/Engineer must review construction-related documentation
- Adding requirements for post-purchase reporting for Value-Add Mortgages
- Requiring the Servicer to submit to Freddie Mac the approval letter that it provides to the Borrower when the Servicer approves the extension of a Repair Agreement
- Updating Exhibit 2, Origination Guidelines for Targeted Affordable Housing Mortgages, and stating which Mortgages with affordability components can be originated and sold by Conventional Seller/Servicers
- Making minor rewording changes concerning electrical capacity

Effective dates

All revisions announced by this Bulletin are effective immediately, with the exception of the changes to Chapter 32: Final Delivery Requirements, as follows:

- Effective September 1, 2016, the revised Chapter 32 will apply to final deliveries submitted by all SBL Seller/Servicers and by non-SBL Seller/Servicers pursuant to Letters of Commitment or early rate-lock applications dated on or after September 1, 2016. Chapter 32SBL is retired as of September 1.

- The Pre-September 1 version of Chapter 32 will apply to final deliveries submitted by non-SBL Seller/Service providers with Letters of Commitment or early rate-lock applications dated prior to September 1, 2016. The Pre-September 1 Chapter 32 will be removed from AllRegs, but continue to be made available to Seller/Service providers on the Purchase and Deliver page of FreddieMac.com.

Conclusion

More details on these changes are provided on the pages that follow. Guide text for the changes announced in this Bulletin is highlighted in green on AllRegs. If you have any questions about this Bulletin, please call your Freddie Mac representative.

Sincerely,

David Brickman
Executive Vice President
Multifamily

Delivery of Seller/Servicer OFAC/FHFA SCP and Exclusionary List Compliance Certifications

We are eliminating our requirements for delivery of Seller/Servicer OFAC, FHFA SCP and Exclusionary List Compliance Certifications with the underwriting package to Freddie Mac.

These changes do not impact a Seller/Servicer's representation and warranty that it is in compliance with OFAC regulations and its obligation to confirm that no Borrower, Borrower Principal or Non-U.S. Equity Holder is on the OFAC SDN List, OFAC Consolidated Sanctions List, FHFA SCP List or the Freddie Mac Exclusionary List.

As a part of a Servicer's responsibility when there is a Transfer of Ownership, the Servicer will still be required to deliver a certification following the Transfer of Ownership that confirms that no Borrower, Borrower Principal, new property management company or Non-U.S. Equity Holder is on the OFAC SDN List, OFAC Consolidated Sanctions List, or the FHFA SCP List.

We have updated Sections 2.23, 2.24, 5.2(m), 9.3, 9.13, 9SBL.3, 9SBL.13, 41.1(d), 41.3(c), 41.6(g), 41SBL.1(d), 41SBL.3(c), 41SBL.6(g), 43.19(b), 43.19(c), 44.1(c), and 55.2 and the Exhibit 1 Underwriting Checklists in support of this change.

Final Delivery Process

In response to Seller/Servicer feedback, we are simplifying the final delivery process by creating a single consolidated delivery path for non-SBL Mortgages similar to the one presently used for delivery of SBL Mortgages. The changes consist of the following:

- For SBL Seller/Servicers, provisions applicable only to SBL Seller/Servicers, such as requirements for the use of Single Counsel and SBL contact information, are being added to Chapter 32, Final Delivery Requirements
- For non-SBL Seller/Servicers
 - In Chapter 32, we are eliminating the distinction between Core and Non-Core Packages; all requirements now apply to the Final Delivery Package
 - We are removing the Accelerated Funding option; a Seller may request a preferred funding date that is at least 10 calendar days after the date on which Freddie Mac receives the Final Delivery Package
- For both SBL and non-SBL Seller/Servicers, we are updating and simplifying the requirements for electronic recording and the verification of the unpaid principal balance (UPB)

Since SBL requirements are being added to Chapter 32, Chapter 32SBL is no longer needed and is being removed from the Multifamily Seller/Servicer Guide. For non-SBL Seller/Servicers, the revised Chapter 32 will apply to final deliveries with Letters of Commitment or early rate-lock applications dated on or after September 1, 2016. The pre-September 1 Chapter 32 will continue apply to non-SBL final deliveries with Letters of Commitment or early rate-lock applications dated prior to September 1, 2016. The pre-September 1 Chapter 32 will be available to these Seller/Servicers on the Purchase and Deliver page on FreddieMac.com until no longer needed. SBL Sellers are to immediately use the post-September 1 Chapter 32.

These changes can be found in Sections 32.1(a), 32.1(b), 32.1(c), 32.1(d), 32.1(f), 32.1(g), 32.1(j), 32.1(k), 32.2, 32.3, 32.5, 32.11(b), and 32.13(a). We have added Section 32.15 pertaining to SBL Mortgages. We have removed references to Chapter 32SBL in Chapters 2, 18SBL, and 33.

Environmental Requirements

We are making the following changes to our environmental requirements:

- Stating that the Seller/Servicer must obtain an environmental report on the Property prior to delivery of the full underwriting package for all Mortgages and prior to Conversion for a Mortgage to be purchased under a Forward Commitment
- Clarifying the conditions that must be met for Freddie Mac to consider issuing a Letter of Commitment or accepting an early rate-lock application before an environmental issue has been corrected
- Specifying that, for an SBL Mortgage, a Repair Reserve for remedying an environmental issue must be at least 100 percent of the amount of the remediation contract

These changes can be found in Section 13.1(b), 13.4(b), 13.6(b), 13.6(d), 13.7(b), 13.8(b), 13.9(b), 13.10(b), 13.10(d), 13.11(b), 13.12(b), 13.13(b), 13.14(b), 13.15(b), 13.15(d), 14SBL.6(b) and 14SBL.6(d).

Seismic Risk Requirements

As a result of updated ASTM standards, we are making a number of changes to our requirements for evaluating seismic risk:

- Revising Chapters 16 and 16SBL to require compliance with ASTM Standard Guide E2026-16a and ASTM Standard Practice E2557-16a, as applicable
- Updating the definition of the Scenario Expected Loss (SEL) and Scenario Upper Loss (SUL) to align with ASTM definitions
- Requiring any deviations from the ASTM Standard Guide to be identified in the Certification Memo included in the Level 1 SRA
- Requiring an evaluation of building stability to be included the Executive Summary of the Level 1 SRA
- Requiring the Consultant conducting the on-site inspection to meet the qualifications of either a Field Assessor or Senior Assessor, as defined in the ASTM Standard, and specifying the roles of the Field Assessor and Senior Assessor
- Reformatting Freddie Mac's insurance requirements to highlight the importance of concerns about building stability

These changes can be found in Section 16.1, 16.2(b), 16.4, 16.5, 16.8, 16.9, 16.11(a), 16.13, 16SBL.1, 16SBL.2(b), 16SBL.5, 16SBL.8, 16SBL.9, 16SBL.11(a), 16SBL.13, 31.9(a), and 31.9(b).

Acquisition Financing

We are adding Section 10.18 to state that when a Mortgage is for the acquisition of a Property, the Mortgage amount cannot exceed the total acquisition cost if the total acquisition cost is less than the appraised value of the Property.

Minimum Origination Fees for SBL Mortgages

We are revising Section 5.2(l) to clarify that the required Minimum Origination Fee for an SBL Mortgage may be satisfied by any combination of premium buy-up and origination fee. We have also revised the Section to indicate that the Minimum Origination Fee of one percent is applicable to SBL Mortgages greater than *or equal to* three million dollars.

Changes to Servicing Spreads

We are replacing the table of Servicing Spreads in Section 17.4(m) for non-SBL cash Mortgages. The new table eliminates historical Servicing Spreads dating from 2014 and contains Servicing Spreads ranging from 20 basis points to 6 basis points, based on the UPB of the Mortgage. The same Servicing Spreads also apply to Supplemental Mortgages, as noted in Section 20.3(j).

We have also updated the table of Servicing Spreads in Section 21.5(h) to remove Servicing Spreads applicable to Mortgages originated on Loan Agreements with revision dates prior to July 1, 2014. There were no other changes to Servicing Spreads for Seniors Housing Mortgages.

Supplemental Mortgages

We are making the following changes to our requirements for Supplemental Mortgages:

- In Section 20.1, we are revising the definitions of a Seasoned Supplemental Mortgage and an Acquisition Supplemental Mortgage to refer to the Origination Date of the First Mortgage rather than the date Freddie Mac purchased the First Mortgage.
- We are revising Section 20.3(o) to state that at least 12 months must have elapsed since the Origination Date of the First Mortgage and any prior supplemental Mortgage.

Seller/Servicer Designations and Co-marketing with Freddie Mac

We are revising the Guide to reflect the fact that Freddie Mac now uses the term Freddie Mac Multifamily Approved Conventional Seller/Servicers to refer to Seller/Servicers formerly known as Program Plus Seller/Servicers. This change, as well as other minor rewording changes, can be found in Sections 3.1(a)-(f). We have also revised references to Seller/Servicer designations throughout the Guide.

In addition, we are updating the process for approving requests for co-marketing with the Freddie Mac Multifamily name, logo, graphic and offerings, as well as requests to link to online Freddie Mac resources. These changes are found in Section 2.10(a)-(e).

Forward Commitments

We are indicating in Sections 19A.15(c) and 28A.14(c) that the Seller/Servicer will find additional information regarding the items that must be submitted as part of the Conversion underwriting package in Section 19A.16(a) and Section 28A.15(a), as well as in the applicable underwriting checklists. We are also revising Section 55.2 to include an environmental assessment report in the list of construction completion documents.

We are also noting in Section 3.13 that the Chief Architect/Engineer must review construction related information at commitment, during construction and at Conversion.

Post-purchase Reporting for Value-Add Mortgages

Freddie Mac is making the following additional changes to the quarterly reporting requirements for Value-Add Mortgages:

- If the scope of a Value-Add project undergoes a significant increase or decrease, the Servicer must prepare a memo summarizing the scope change and its impact on the budget and quality of the project. This memo must be submitted along with the Borrower Quarterly Certification and the Value-Add Monitoring Form as part of the Value-Add documentation.
- With respect to the Annual Inspection Form (AIF), the Servicer must provide a representative number of photographs in the AIF addressing the status of each Value-Add component described in the Value-Add Schedule of Work.
- Once the work is completed, the AIF must be performed by an individual meeting the qualifications of either a Certified or Exempt Inspector.

See Section 40.15(b) for a detailed description of these changes.

Additional Requirement for Repair Agreement Extensions

When a Servicer of a Mortgage has delegated authority to extend the completion date of a Repair Agreement, we are now requiring that the Servicer include in the documentation submitted to Freddie Mac a copy of the approval letter that the Servicer provided to the Borrower.

This change can be found in Section 39.4(b)(2)(E).

Origination Guidelines for Mortgages with Affordability Components

We have updated the chart in Exhibit 2, Origination Guidelines for Targeted Affordable Housing Mortgages, to include additional information on tax abatements and to update the footnotes. We have also added language to Sections 17.1(a) and 19.1(a) to provide a list of cash Mortgages with certain affordability components that can be originated by a Conventional Seller/Servicer.

Minor Rewording Changes Concerning Electrical Capacity

To enhance readability, we have made minor rewording changes to the electrical capacity paragraphs in Section 14.5(c) and 14SBL.5(c). The requirements have not otherwise changed.