

# **Servicing Credit Enhanced Bonds**

Presented by:  
Special Products Team  
Asset Management Department  
Multifamily Division, Freddie Mac

July 2009

## **Purpose of Today's Training**

To explain the servicing requirements for bond credit enhancements, with a focus on servicing transactions and assessments.

## Today's Agenda

- Special Products Team – What We Do and How to Contact Us
- Servicing Requirements
- Bond Documents – What to Look For
- Bond Transactions – Assumptions, Transfers, etc.
- Bond Assessments – What is Expected
- Questions and Answers

## Special Products Team Roles & Responsibilities

- Roles and responsibilities related to credit enhanced Bonds:
  - » Post Closing servicing transactions on one-off and structured transactions, including Tax-Exempt Bond Securitization (TEBS) deals
  - » Process Bond AIE's
  - » No involvement in Loan Accounting processes

# General Contact Information

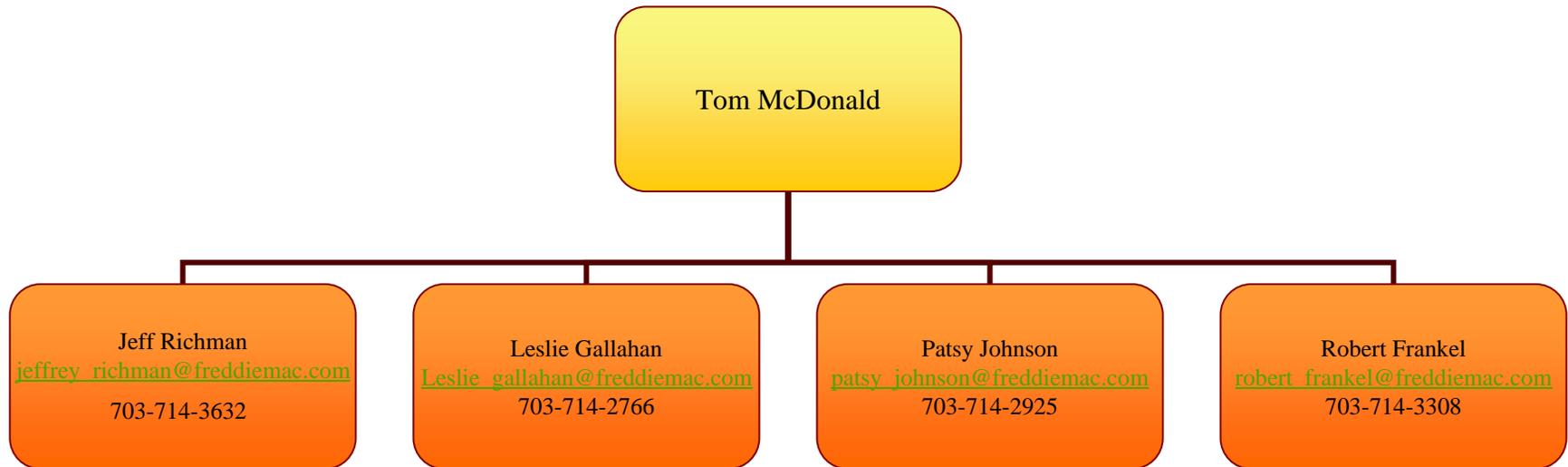
Ilona Conolly  
Business Initiatives Director  
Special Products and Initiatives  
[Ilona\\_conolly@freddiemac.com](mailto:Ilona_conolly@freddiemac.com)  
703-714-2887

Tom McDonald  
Associate Director,  
Special Products and Transactions  
[Thomas\\_mcdonald@freddiemac.com](mailto:Thomas_mcdonald@freddiemac.com)  
703-714-3265

Myra Falck,  
Manager, Initiatives  
[Myra\\_falck@freddiemac.com](mailto:Myra_falck@freddiemac.com)  
703-714-2999

Kathy Hurley  
Manager, Special Products  
[Kathleen\\_hurley@freddiemac.com](mailto:Kathleen_hurley@freddiemac.com)  
703-714-2531

# Contact Information – Special Product Transactions Team



## Bond Servicing Requirements

- Effective 1/1/2002, Servicing Agreements on one-off deals eliminated after creation of Chapter 28 of *Guide*
- Servicing Agreements utilized for structured transactions
- *Guide* Chapters, specifically the Mortgage Servicing Chapters 36-43 also apply to the servicing of Bonds

## Key Guide Chapters

- *Guide* – Chapter 28 (current chapter on Credit Enhancements)
  - » Chapter 28.18 – General Servicing Policy for Multifamily Housing Bond Credit Enhancements
  - » Chapter 28.19 – Billing and Collections
  - » Chapter 28.21 (a) – Investments of Cap Fee Escrow
  - » Chapter 28.22 - Application of Payments
  - » Chapter 28.23-28.25 - Remittances, Accounting and Reporting
- *Multifamily Delegated Underwriting for Targeted Affordable Housing Guide*

*Note: This references current chapter numbers, but they are subject to change.*

## Key Documents to be Reviewed by the Servicer

- Reimbursement Agreement
  - » Terms under which borrower will reimburse Freddie Mac for payments made by Freddie Mac under the Credit Enhancement Agreement
  - » Payment of various fees by borrower
  - » Borrower's responsibility for maintaining interest rate cap or swap
- Indenture
  - » Sets forth the terms of the Bonds including interest rate, principal maturities, redemptions, etc.
  - » Duties and responsibilities of the Trustee including payments and administration of various accounts

## **Key Documents to be Reviewed by the Servicer** cont'd

- Servicing Agreement (pooled transactions only)
- Credit Enhancement Agreement
- Regulatory Agreement
  - » Project occupancy and use restrictions to maintain tax exemption
- Financing Agreement (& Note)
  - » Memorializes the loan of Bond proceeds from Issuer to Borrower

## **Key Documents to be Reviewed by the Servicer** cont'd

- Repair Escrow Agreement (if applicable)
- Hedge Documents
- Letter of Commitment and any addenda
- Offering Statement (transaction overview)
  - » A securities disclosure prospectus specifying terms of Bonds, the Credit Enhancement Agreement and describing the project

## Basic Documents – Fixed- vs. Variable-Rate Transactions

Document	Fixed	Variable
Trust Indenture	X	X
Financing (or Loan) Agreement	X	X
Regulatory Agreement	X	X
Bond Note and Mortgage	X	X
Official Statement, Bond Purchase Agreement and Remarketing Agreement*	X	X*
Credit Enhancement Agreement	X	X
Reimbursement Agreement	X	X
Reimbursement Mortgage	X	X
Intercreditor Agreement	X	X
Pledge, Security and Custody Agreement		X
Hedge Agreement (Cap or Swap)		X
Hedge Assignment (now included in Reimbursement Agreement)		X
Swap Credit Enhancement Agreement (if hedge is swap)		X



# **Transactions/ Post-Closing (i.e., Servicing) Requests**

## Special Servicing Transactions (examples)

- The Servicer should direct all servicing requests related to Bonds to the Special Products team.

Assumptions/Transfers	Hedge Escrow Adjustments (1 <sup>st</sup> one after closing)
Partial Releases	Hedge Replacements
Easements	Remarketing Agent Changes
Substitutions	Collateral Releases
Trustee Changes	Stabilizations

- All such requests must be submitted using the form provided in the Job Aids section of MultiSuite and must include a summary of any applicable provisions of the documents associated with the Bond transaction.

*Note: This list is not all-inclusive.*

## Special Servicing Transactions (contd)

- They may require the approval of multiple parties, including:
  - » Bond trustee
  - » Securities Counsel
  - » Bond Counsel
  - » Issuer
- Bond and other legal documents specify the approval requirements.
- When the documents are silent, Freddie Mac in-house or outside counsel will determine whose approval is required.

## Transactions with Unique Considerations

- Condemnations, Partial Releases for Compensation
  - » Proceeds are pledged to Freddie Mac under the Mortgage; at Freddie Mac's discretion, proceeds may be used to either redeem Bonds or improve the property.
  
- Assumptions
  - » Interest Rate Hedge
  - » Tax Abatements
  - » Issuer Approval
  
- Property Management Changes

## Hedge Expiration

### Requirements:

- Hedges are required during periods when Bonds bear interest at variable rates
- Hedge agreement (cap or swap) typically terminates before Bonds mature
- Hedge must be replaced before expiration of existing hedge
- Failure to replace expiring hedge is an event of default under Reimbursement Agreement

## Hedge Replacement Process

- Freddie Mac sends notice to Servicer 60 days prior to expiration of existing hedge
- Servicer must notify Freddie Mac of borrower's intention to purchase cap or swap, as required by Reimbursement Agreement, at least 30 days prior to expiration of existing hedge
- Freddie Mac approves proposed cap/swap provider and agreement (requires Freddie Mac legal review, typically outside counsel)

## Hedge Replacement Process cont'd

- Agreement must provide for the same payment provisions and requirements as those in place per the Reimbursement Agreement
- Miscellaneous
  - » Replacement will be required if current Hedge Provider is downgraded
  - » Hedge provider must be on Freddie Mac approved provider list found on the Freddie Mac website

## Hedge Provider Downgrades

- Termination under a Cap
  - » Borrower has 30 days to replace
  - » Freddie Mac will contact Servicer with direction
- Termination under a Swap
  - » Must consult with Freddie Mac Special Products & Transaction analyst

## Condensed E-mail Notification

Property Name: 123 Main Street  
123456

Freddie Loan # 123456789

Servicer Loan #

This is notification that the Rate Cap expires \_\_\_\_\_. The new Rate Cap Agreement must be in place by \_\_\_\_\_. The new agreement must be purchased pursuant to the Reimbursement Agreement provided the following:

Strike Rate, Term, Index SIFMA, Notional Amount:

No later than \_\_\_\_\_ please provide to Freddie Mac the name of the bidder, bid date and cost of the cap.

Only those providers who have negotiated an agreement are acceptable. 48 hours prior to the bid date, confirm provider is still acceptable by clicking on the link below:

[https://multifamily.freddiemac.com/multisuite/tools/TAH\\_forms.html](https://multifamily.freddiemac.com/multisuite/tools/TAH_forms.html)

We will be using Kutak Rock to assist in the closing of this transaction. Borrower pays legal fees. Please provide the following to Kutak Rock:

- Contact info for the Trustee and Borrower
- Principal Amount of Bonds outstanding the day before replacement
- Amount in the PRF
- Information about account which receives payments made by the cap provider

The initial UCC financing statements may need to be amended.

I will be your Freddie Mac contact. I can be reached at (703) 714-2925 or [MF\\_SPI\\_HEDGE@freddiemac.com](mailto:MF_SPI_HEDGE@freddiemac.com) or [patsy\\_johnson@freddiemac.com](mailto:patsy_johnson@freddiemac.com).

# Finding Approved Counterparty List

**Freddie Mac**

**MultiSuite®**  
The Resource Center for Multifamily Seller/Serviceers

**Freddie Mac**

**Multisuite Home**

- News
- Tools & Resources
- Training & Events
- Loan Production
- Portfolio Services
- Investor Reporting

**News**

- Developments Newsletter
- Loan Accounting Insider
- News Releases

**Tools & Resources**

- Advisory Council Members
- Forms and Documents**
- Multisuite Information
- Multifamily Market Ratings [PDF]
- Multifamily Staff
- Seller/Serviceer Guide
- TAH Guide Form and Documents

**Training & Events**

- Webinar: Freddie Mac Data Delivery System – Part One: Overview Presentation A recorded

**Loan Production**

- Job Aids (includes Loan Submission Template)
- Multisuite for Data Delivery
- Data Delivery Feedback

**Portfolio Services**

- Electronic Data Transmission
- MultiSuite for Assessments
- Assessments Pipeline
- Job Aids

**Investor Reporting**

- MultiSuite for Investor Reporting
- Reports
- Investor Reporting Calendar Dates
- Loan Accounting Insider

**New & Notable**

- April Developments features quarterly production updates and a recap of the April 7 Guide Bulletins.
- Multifamily Market Ratings [PDF] An updated list of markets that exhibit below average economic strength and resiliency (updated as of April 14, 2009)
- New Loan Submission Template (Version 1.25) for Data Delivery [XLS 3.0M ] and related information is now available
- March 2009 Targeted Affordable Housing for Delegated Underwriting Guide Bulletin [PDF]
- View our updated Freddie Mac Contacts [PDF]
- New TAH Forms and Documents Page supporting

# Finding Approved Counterparty List cont'd

[Home](#) | [Contact Us](#) | [FreddieMac.com/multifamily](#)



**MultiSuite®**  
The Resource Center for Multifamily Seller/Service



## Multisuite Home

### News

### Tools & Resources

- › [Advisory Council Members](#)
- › [Forms and Documents](#)
- › [Multifamily Staff](#)
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- › [Seller/Service](#) Guide

### Training & Events

### Loan Production

### Portfolio Services

### Investor Reporting

## Freddie Mac Delegated Underwriting for Targeted Affordable Housing Guide<sup>SM</sup> Forms and Documents

Below are the forms, documents and checklists that support the Freddie Mac Delegated Underwriting for Targeted Affordable Housing Guide. The TAH Guide is available on *AllRegs*.

- [501\(c\)\(3\) Due Diligence Checklist](#) [PDF 11K]
- [Approved State and Local Tax Abatement Programs](#) [PDF 26K]
- [Certification Regarding Payment of Fees and Expenses of Freddie Mac's Outside Legal Counsel](#) [DOC 20K]
- [Checklists for Final Delivery Packages](#)
- [Conflicts Check Form](#) [XLS 98K]
- [Construction Guides for Targeted Affordable Housing](#) [PDF 41K]
- [Electronic Delivery Procedures for the Cash Core and Non-Core Final Delivery Packages](#) [DOC 24K]
- [Electronic Delivery Procedures for the Core/Non-Core and Bond Final Delivery Packages](#) [DOC 44K]
- [Exception Request Form - Project](#) [DOC 25K]
- [Exception Request Form - Legal](#) [DOC 23K]
- [Finite Bifurcated Tax Abatement Spreadsheet](#) [XLS 122K]
- [Form of Opinion Letters - Borrower, Guarantor & Land Trust Beneficiary's Counsel](#)
- [Letter of Credit Certification](#) [DOC ]
- [Hard Quote Request Form](#) [XLS 20K]
- [IRP/Cash Flow Sizing Template](#) [DOC 197K]
- [Investment Brief Template](#) [DOC 205K]
- [Multifamily Approved Counterparty List](#) [XLS 17K]
- [Multifamily Compliance Checklist - Mortgage Purchase Eligibility](#) [DOC 35K]
- [Multifamily Currently Acceptable Electronic Mortgage Documents](#) [DOC 1

# Approved Counterparties – April 2009

<b>MULTIFAMILY COUNTERPARTY APPROVED LIST June 2009</b>			
<b>TERM</b>	<b>Interest Rate Cap/Swap Providers</b>	<b>Letter of Credit Providers</b>	<b>Downgrade Provisions</b>
10+ Years	<b>Bank of America, NA</b> Bank of Montreal <b>Bank of New York</b> Barclays Bank PLC <b>BNP Paribas</b> <b>Citibank, NA</b> Credit Suisse First Boston Deutsche Bank AG Harris NA HSBC Bank USA <b>JPM Chase Bank</b> <b>Merrill Lynch Capital Services</b> <b>National Australia Bank, Ltd.</b> <b>PNC Bank NA</b> <b>Royal Bank of Canada</b> <b>Swiss RE Financial Products Corp.</b> UBS AG Wells Fargo Bank NA	Bank of America NA Bank of New York Barclays Bank PLC BB&T Citibank NA JPM Chase Bank UBS AG US Bank NA Wells Fargo Bank	Banks & Brokers: DG to A: Post at \$1,000,000 DG to A-: Post at \$0 or Option for Termination FM to Post if DG to A at \$1,000,000 regardless of GSE Status.
5 to 10 Years Requirement: 10+ Ctpys	Goldman Sachs Capital Markets Morgan Stanley Capital Services Union Bank, NA	Bank of the West PNC Bank NA	Banks & Brokers: DG to A: Post at \$1,000,000 DG to A-: Post at \$0 or Option for Termination FM to Post if DG to A at \$1,000,000 regardless of GSE Status.
1 to 5 Years Requirement: 5-10 & 10+ Year Ctpys		California Bank & Trust Capital One Bank Comerica Bank KeyBank N.A. Morgan Stanley Regions Bank Suntrust Bank TD BankNorth, NA	Banks & Brokers: DG to A: Post at \$1,000,000 DG to A-: Post at \$0 or Option for Termination FM to Post if DG to A at \$1,000,000 regardless of GSE Status.

**Note: Institutions in bold have accepted Freddie Mac's Cap/Swap documents.**

Freddie Mac reserves the right to add, modify, revise and/or delete a counterparty and/or conditions to the list at any time without notice. This list does not constitute a contract or an agreement with Freddie Mac and is not binding on Freddie Mac until such time as Freddie Mac executes a Commitment for a Mortgage. This list constitutes "Confidential Information" as defined in Section 2.8 of the Seller/Service Guide.

## Cap Fee Escrow Adjustments

- Provisions of adjustment are contained in Reimbursement Agreement
- Escrow adjustment frequency: quarterly, semi-annually or annually and is typically reset annually
- Escrow funding: 110-125% of current cost of cap
- Servicer obtains market rate cap cost based on terms of cap as stated in the Reimbursement Agreement
- Freddie Mac reviews only the 1<sup>st</sup> adjustment after closing; all subsequent reviews are done by the Servicer
- See *Guide* section 28.12 (b) regarding estimation of cost of replacement hedge

### Example of Escrow Adjustment for a Cap

Notional Amount	\$ 5,000,000.00
Strike Rate	5.750%
Cap Effective Date	6/1/2001
Today's Date	6/1/2003
Cap Termination Date	6/1/2004
Rate Cap Term (in months)	36
Remaining Cap Term (in months)	12
Quote for New Cap	\$ 23,000.00
Escrow Factor	125%
Required Escrow	\$ 28,750.00
Current Escrow Balance	\$ 15,000.00
Additional Escrow Required	\$ 13,750.00
New Monthly Escrow Deposit	\$ 1,145.83

## Replacement of Remarketing Agent

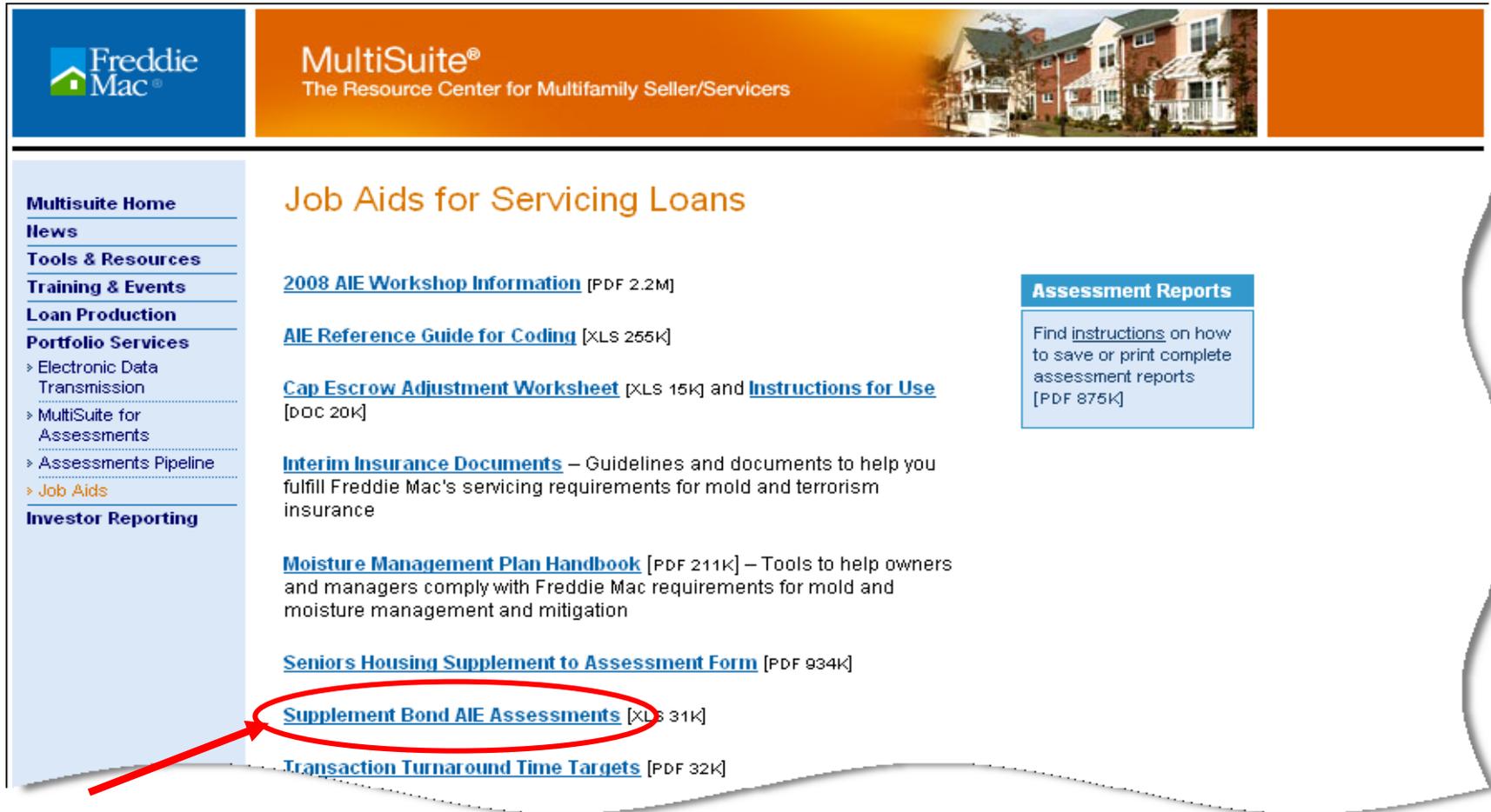
- Remarketing Agent may resign, but resignation is not effective until a replacement is in place
- A successor Remarketing Agent must be approved by Freddie Mac
  - » Consult with Freddie Mac for up-to-date list of approved Remarketing Agents
- A successor Remarketing Agent shall be appointed pursuant to the Indenture
- Remarketing Agent shall pay over, assign and deliver any moneys held by it to its successor

# AIEs, ALI/ALMs

## Bond AIE Assessments

- Bond AIE Supplement form required to be submitted with each Bond AIE
- Supplement form found in Job Aids section of MultiSuite
- Purpose of the Supplement is to detail debt service paid by borrower and ensure that all fees and subordinate debt are included

# Supplement Bond AIE Assessments



The screenshot shows the MultiSuite website interface. At the top left is the Freddie Mac logo. The main header area is orange and contains the text "MultiSuite® The Resource Center for Multifamily Seller/Serviceers" and a photograph of a brick apartment building. On the left side, there is a navigation menu with categories: "Multisuite Home", "News", "Tools & Resources", "Training & Events", "Loan Production", "Portfolio Services" (with sub-items: "Electronic Data Transmission", "MultiSuite for Assessments", "Assessments Pipeline", "Job Aids"), and "Investor Reporting". The "Job Aids" item is highlighted in orange. The main content area is titled "Job Aids for Servicing Loans" and lists several resources: "2008 AIE Workshop Information" (PDF 2.2M), "AIE Reference Guide for Coding" (XLS 255K), "Cap Escrow Adjustment Worksheet" (XLS 15K) and "Instructions for Use" (DOC 20K), "Interim Insurance Documents" (Guidelines and documents to help you fulfill Freddie Mac's servicing requirements for mold and terrorism insurance), "Moisture Management Plan Handbook" (PDF 211K) (Tools to help owners and managers comply with Freddie Mac requirements for mold and moisture management and mitigation), "Seniors Housing Supplement to Assessment Form" (PDF 934K), "Supplement Bond AIE Assessments" (XLS 31K) (circled in red with a red arrow pointing to it), and "Transaction Turnaround Time Targets" (PDF 32K). On the right side, there is a blue box titled "Assessment Reports" with the text: "Find instructions on how to save or print complete assessment reports [PDF 875K]".

# Bond AIE Assessment Supplement Form

Supplement - Bond AIE Assessments			
Freddie Mac Debt Service Detail for Bond Financed Properties		12 scheduled payments	
<b>Property Name:</b>			<i>this</i>
<b>Property Address (City, ST)</b>			<i>column</i>
			<i>Freddie Mac</i>
Freddie Mac Loan # "A" piece			<i>use</i>
Financing (Bond, Cash, Mezz, Other)		Bond	<i>only</i>
Outstanding Bond Balance [beginning] [end of period]			
Principal Reserve Fund [beginning] [end of period]			
			% of avg bal.
Principal Reserve Fund Payments			
Interest Payments (if variable rate and has Swap, use Swap fixed rate)			#DIV/0!
FHLMC Credit Facility Fee			#DIV/0!
FHLMC Liquidity Facility Fee (\$0 for fixed rate bonds)			#DIV/0!
Servicing Fee			#DIV/0!
Bond Fees (Trustee)			#DIV/0!
Bond Fees (Issuer)			#DIV/0!
Bond Fees (Remarketing) (\$0 for fixed rate bonds)			#DIV/0!
Bond Fees (Rebate Analyst)			#DIV/0!
Bond Fees (Other)			#DIV/0!
Interest Rate Cap Escrow Payments (\$0 for fixed rate bonds)			
Interest Rate Swap Credit Enhancement Payments (\$0 for fixed rate bonds)			
Interest Rate Swap Escrow Payments (\$0 for fixed rate bonds)			
<b>TOTAL</b>			<b>\$0</b> #DIV/0!

----- "A" Piece -----

## AIE Issues

Common Issues identified during AIE reviews:

- Principal Reserve Fund (PRF) payments not included
  - » PRF payments are a key part of the borrower debt service requirement
  - » Failure to report understates borrower obligation
  - » Failure to report prevents us from being able to accurately analyze the loan performance

## AIE Issues cont'd

- Entire fee stack not being used
  - » It is important that we understand what the total financial obligation is for the borrower
  - » Servicers must report all funds paid by the borrower for all items identified in lines 4-16, regardless of whether these have been reported in monthly reporting for the assessment period
  - » If there is no identified field for funds collected, report those in the “Other fees” field
  - » If any fees reported are estimates, include a comment explaining this

## AIE Issues cont'd

- Swap rate not being used for variable rate Bonds
  - » When entering data onto line 5 “Interest Payments”, make sure to enter interest at the swap fixed rate, if applicable.
- Interest is being under-reported
  - » Failure to report interest using swap rate
  - » Should be caught when performing review prior to sending to Freddie Mac

## AIE Issues cont'd

- Debt is being miscalculated
  - » Performing a thorough review of report before sending to Freddie Mac will help to eliminate this issue.
  - » Review all records (not just the A) to ensure that all appropriate items are being reported correctly.
- Comments, comments, comments – always include comments that will adequately communicate how your values were derived.
  - » Be specific
  - » Be clear

## Documents Referencing Bond Fees

	Bond Note	Commitment	Reimb. Agr.	C.E. A.	Trust. Indenture	Financing Agr.	Rmrkt Agr.
PRF Payments	Schedule	Calculation	<b>Schedule</b>			Schedule	
Interest Payments		X			Definition		Determines variable rate
FHLMC C.E. Fee		X	<b>Definitions</b>	Definitions			
FHLMC Liquidity (1)		X	<b>Definitions</b>	Definitions			
Servicing Fee		X	<b>Definitions</b>				
Trustee Fee					<b>Definitions (Bond Fee Component)</b>		
Issuer Fee					<b>Definitions (BFC)</b>		
Remarketing (1)							X
Rebate Analyst Fee					<b>Definitions</b>		
Other Fees							
Cap Esc. Pmts (1)	Re-priced annually or quarterly per Reimbursement Agreement						
Swap C.E. Pmts (1)			<b>Definitions</b>				
Swap Esc. Pmts (1)	Typically estimated based on cap 5 years prior to expiration of Swap						
(1) N/A for fixed rate							

## Interest Reduction Payment, HUD 236

- “What is an IRP?”
- Report IRP as subordinate debt on “Freddie Mac subordinate financing” schedule of AIE
- Include income payment in “miscellaneous income” on AIE
- Include IRP debt service with “Freddie Mac debt service” on AIE

## ALI's – Tips for Accurate Reporting

- If you have questions first refer to Chapter 40 Assessments of the *Freddie Mac Multifamily Seller/Service* Guide.
  - » For further assistance contact your primary analyst.
- All submissions should include completed certified Multifamily Assessment Report with required attachments, including photographs.
- Complete all sections of each assessment using the best information available.
  - » If unable to complete a section, include a detailed explanation.

## ALI's – Tips for Accurate Reporting cont'd

- If the loan is currently on the PWL, or any other level of the Watchlist, it is not necessary to select Yes for Recommend WL placement.
- Comments are invaluable to us as they allow us to gain an understanding of the current conditions of the loan and of the market.
- List all capital improvements completed over the past year and any planned for the next year, along with their cost.
- Provide clear, high-quality color photographs.
  - » Ensure they cover a representative sampling of each type of unit, as well as amenities, drives, walkways and building exteriors.

## **ALI's – Tips for Accurate Reporting** cont'd

- Be sure to include compliance certificates for continuing compliance with:
  - » Regulatory Agreement, as required by Issuer
  - » Tax Abatement, as required by Taxing Authority

## Final Tips and Reminders

- Become familiar with servicing requirements for each deal:
  - » Guide, Servicing Agreement, Bond documents
  - » Use The Players and Documents chart
  - » Consult bond attorneys, as needed
- Do not lose sight of risk at property level (cash flow)
- Your Freddie Mac counterparts are available to assist with any questions



***Thank you for attending this training!***