

Multifamily Selling and Servicing Guide

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TABLE OF CONTENTS

Part III Section 1402 Supplemental Mortgage Loans	3
1402.01 Description	
1402.02 Coterminous and Non-Coterminous	
1402.03 Loan Amount	5
1402.03A Maximum Loan Amount	
1402.03B Calculating the Debt Service	6
1402.03C Calculating the DSCR and LTV	6
1402.03D New Loan Test	7
1402.04 Tier Dropping	7
1402.04A Designating	7
1402.04B Eligibility	
1402.04C Ineligible Mortgage Loans	8
1402.05 Streamlined Underwriting	
1402.05A Property	9
1402.05B Borrower, Guarantor, Key Principals, and Principals	10
GLOSSARY	12



Section 1402 Supplemental Mortgage Loans

1402.01 Description

▼ Requirements

Pro	oduct Description
Lender Eligibility	You must be the Servicer of all Pre-Existing Mortgage Loans on the Property.
Ineligible Products	Hybrid ARM Loan
Loan History	Pre-Existing Mortgage Loan is not on the current Fannie Mae Watchlist.
Origination Date	At least 12 months must elapse between the origination dates of the most recent Pre-Existing Mortgage Loan and the Supplemental Mortgage Loan, unless the Loan Documents expressly permit a shorter time.
Maximum Number of Supplemental Mortgage Loans	Only 1 Supplemental Mortgage Loan is permitted during the Senior Mortgage Loan term unless:
	 it is a Moderate Rehabilitation Supplemental Mortgage Loan; it is a Green Rewards Supplemental Mortgage Loan where 100% of the proceeds are used to implement selected Efficiency Measures; or the Property is sold to an unrelated new Borrower who assumes the Pre-Existing Mortgage Loan, and the closing and funding of the new Supplemental Mortgage Loan occurs concurrently with the Property sale and Pre-Existing Mortgage Loan assumption.



Product Description	
Minimum Supplemental Loan Term	5 years provided that:
	for Pre-Existing Mortgage Loans with a balloon payment at the Maturity Date, the Maturity Date of the Supplemental Mortgage Loan must not be before that of any Pre-Existing Mortgage Loan; and for fully amortizing Pre-Existing Mortgage Loans, the Maturity Date of the Supplemental Mortgage Loan must not be before the latest Prepayment Premium Period End Date of any Pre-Existing Mortgage Loan.
Mortgage Loan Amount	Except per Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402.03: Loan Amount, you must determine the Underwritten NCF, Underwritten DSCR, and LTV per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products in Part III.
Replacement Reserve, Tax, and Insurance Escrows	 You must: Calculate the Replacement Reserve, tax, and insurance escrows on the resulting Tier of the combined Pre-Existing Mortgage Loan and Supplemental Mortgage Loan. Ensure escrow funding established with the Pre-Existing Mortgage Loans does not cease. Adjust the funding when necessary to meet current Tier 2 requirements for any Tier Dropping Supplemental Mortgage Loan if the combined Tier is Tier 2.
Cross-Default	Must be cross-defaulted with all Pre- Existing Mortgage Loans.



Product Description	
Interest Rate Type	 Fixed rate, if the Pre-Existing Mortgage Loan has a fixed rate. Fixed or variable rate, if the Pre-Existing Mortgage Loan has a variable rate.
UCC Financing Statements	No new UCC Financing Statement is required for the Supplemental Mortgage Loan.
	If the Lien of the Senior Mortgage Loan is released before the Supplemental Mortgage Loan is repaid in full, you must file a UCC Financing Statement for the Supplemental Mortgage Loan in the appropriate public records office.

Guidance

You may increase Replacement Reserve, tax, and insurance escrow funding for a Supplemental Mortgage Loan if the Tier is unchanged from the Pre-Existing Mortgage Loans.

1402.02 Coterminous and Non-Coterminous

Guidance

A Supplemental Mortgage Loan may have a Maturity Date that is either coterminous or non-coterminous with the Maturity Date of the Senior Mortgage Loan.

The Prepayment Premium Period End Date of a Supplemental Mortgage Loan need not coincide with the Prepayment Premium Period End Date of any Pre-Existing Mortgage Loan.

Requirements

You must resubordinate any existing, non-coterminous Supplemental Mortgage Loan when refinancing a maturing Senior Mortgage Loan with Fannie Mae.

Effective: 04/05/2024

1402.03 Loan Amount

1402.03A Maximum Loan Amount



✓ Requirements

The maximum Supplemental Mortgage Loan amount equals the lowest Mortgage Loan amount calculated per Sections 1402.03.B - 1402.03.D of this Chapter.

1402.03B Calculating the Debt Service

✓ Requirements

You must calculate the Supplemental Mortgage Loan amount based on the combined debt service amounts of all Pre-Existing Mortgage Loans plus the Supplemental Mortgage Loan, as outlined in the following tables.

Pre-Existing Mortgage Loans	
If the Interest Rate Type is	Use an amortizing Debt Service Amount based on the
Fixed Rate	Gross Note Rate.
Adjustable Rate	origination loan amount;amortization term; andVariable Underwriting Rate per the applicable Part III Chapters.

Supplemental Mortgage Loan	
If the Interest Rate Type is	Use an amortizing Debt Service Amount based on the greater of the Gross Note Rate or the
Fixed Rate	applicable Underwriting Interest Rate Floor per Form 4660 .
Adjustable Rate	Variable Underwriting Rate per the applicable Part III Chapters.

1402.03C Calculating the DSCR and LTV

✓ Requirements

To determine the Supplemental Mortgage Loan amount, you must apply the Form 4660 DSCR and LTV requirements as follows:



Supplemental Mortgage Loan	
DSCR	The combined debt service of
	all Pre-Existing Mortgage Loans, plusthe Supplemental Mortgage Loan.
LTV	The combined aggregateUPB of all Pre-Existing Mortgage Loans, plus the principal amount of the Supplemental Mortgage Loan.

1402.03D New Loan Test

✓ Requirements

For a Tier 2 Supplemental Mortgage Loan, if the Senior Mortgage Loan Maturity Date is 5 years or less after the Supplemental Mortgage Loan Origination Date, you must perform a New Loan Test to confirm the combined UPB of all Pre-Existing Mortgage Loans plus the Supplemental Mortgage Loan does not exceed the maximum loan amount for a new fixed rate, first Lien, cash-out Mortgage Loan.

Term	New Loan Test Requirement
Underwriting Tier	Tier 2
Minimum DSCR	Per Form 4660
Maximum LTV	Per Form 4660
Maturity	10 years
Market Classification	Based on Property's Location
Interest Rate	 Higher of: an interest rate using the highest Total Credit Fees Range in the current "Indicative Pricing" table in DUS Gateway minus any applicable "Optional Reduction"; or the Underwriting Interest Rate Floor per Form 4660, if applicable.

Effective: 04/05/2024

1402.04 Tier Dropping



1402.04A Designating

✓ Requirements

If you designated a Senior Mortgage Loan as eligible for a Tier Dropping Supplemental Mortgage Loan, then you must also designate all Supplemental Mortgage Loans secured by that Property as eligible for Tier Dropping Supplemental Mortgage Loans.

% Operating Procedures

- For an MBS Mortgage Loan originated before September 1, 2007, you must have designated it as eligible for a Tier Dropping Supplemental Mortgage Loan at the time of Commitment of each Pre-Existing Mortgage Loan.
- For Pools issued on or after August 1, 2001, the designation for Tier Dropping Supplemental Mortgage Loans eligibility must be disclosed on Annex A to the Prospectus.

1402.04B Eligibility

Requirements

	Tier Dropping Eligibility
If the Pre-Existing Mortgage Loan is	It is eligible for a Tier Dropping Supplemental Mortgage Loan if
Cash	the combined Pre-Existing Mortgage Loans and Supplemental Mortgage Loan meet the Form 4660 • minimum applicable DSCR for Tier 2 Mortgage Loans, and • maximum applicable LTV for Tier 2 Mortgage Loans.
MBS	it was designated as eligible for a Tier Dropping Supplemental Mortgage Loan; and the combined Pre-Existing Mortgage Loans and Supplemental Mortgage Loan meet the Form 4660 - minimum applicable DSCR for Tier 2 Mortgage Loans, and - maximum applicable LTV for Tier 2 Mortgage Loans.



1402.04C Ineligible Mortgage Loans

✓ Requirements

ARM Loans cannot be Tier Dropping Supplemental Mortgage Loans.

1402.05 Streamlined Underwriting

1402.05A Property

✓ Requirements

	Streamlined Underwriting
Appraisal	You must obtain a new Appraisal.
Property Management	If there has been or will be a Property management change, you must comply with Part II, Chapter 1: Attributes and Characteristics, Section 112.01: Property Management.
Property Condition Assessment Report	You must obtain a PCA Report if the Supplemental Mortgage Loan Property inspection reveals any adverse change in property condition or life safety issues.
	A PCA Report is not required if:
	 there has been no adverse change; the existing PCA Report is less than 3 years old; all immediate repairs identified in the existing PCA Report have been satisfactorily completed; and the most recent Property inspection indicates an overall rating of 1 or 2.
Replacement Reserves	 If the PCA Report indicates a need to modifythe existing or fund an initial Replacement Reserve, you must ensure the funding by amending the Replacement Reserve Schedule. Even if there is no funding or only partial funding for a Pre-Existing Mortgage Loan, you must fully fund the Replacement Reserve if the combined DSCR and LTV for all Pre-Existing Mortgage Loans and the Supplemental Mortgage Loan is Tier 2.



Streamlined Underwriting	
Environmental Site Assessment (ESA)	You must obtain a new or updated ESA and comply with Part II, Chapter 5: Property and Liability Insurance, Section 502: Environmental Matters unless all the following are met:
	 an ESA was performed for a Pre-Existing Mortgage Loan; an Environmental Professional performs an environmental database review and identifies no potential environmental concerns (as defined in ASTM E1528 - Standard Practice for Limited Environmental Due Diligence: Transaction Screen), or adverse conditions requiring further due diligence;
	 the Borrower executes an Environmental Indemnity Agreement (Form 6085); you confirm that any disclosed Prohibited Activities or Conditions per the Loan Documents are adequately addressed through an O&M Plan being implemented at the Property; and the Borrower certifies, and you confirm, that all appropriate O&M Plans are in place and being fully and properly implemented.
Property and Liability Insurance	You must base the required amounts and coverages of all property and liability insurance on the combined UPB of the Supplemental Mortgage Loan and all Pre-Existing Mortgage Loans.
Title Insurance	You must ensure the Borrower obtains a new title insurance policy.

1402.05B Borrower, Guarantor, Key Principals, and Principals

✓ Requirements

You must:

■ identify all Key Principals and Principals of the Borrower and Guarantor;

Effective: 04/05/2024

confirm the original underwriting of the Borrower, Guarantor, and each Key Principal and Principal per Part I, Chapter 3: Borrower,



Guarantor, Key Principals, and Principals;

- obtain updates to the:
 - financial statements for all parties relevant to the transaction;
 - Multifamily Underwriting Certificates (Form 6460 series) for the Borrower, Guarantor, and each Key Principal;
 - organizational documents of the Borrower, Guarantor, and each Key Principal; and
 - good standing certificate from the jurisdiction where an entity Borrower and Guarantor are organized;
- confirm that the organizational structure of the Borrower, Guarantor, and each Key Principal complies with Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals; and
- confirm that no unauthorized change has been made to the organizational structure or organizational documents of the Borrower or the Guarantor.

Operating Procedures

If there was	You must
• an unauthorized Transfer/Assumption	notify Fannie Mae per:
; or	Part VI, Chapter 3: Non-Performing Primary Risk
any change in the	Mortgage Loans, Section 305: Notice of Default ; or
organizational	Part VI, Chapter 5: Non-Performing Secondary
structure of the	Risk Mortgage Loans, Section 505: Notice of
Borrower, Guarantor,	Default .
or any Key Principal	
or Principal	



Glossary

A

Appraisal

Written statement independently and impartially prepared by a qualified appraiser stating an opinion of the Property's market value

- · as of a specific date, and
- supported by the presentation and analysis of relevant market information.

Synonyms

Appraisals

ASTM

American Society for Testing Materials

\mathbf{B}

Borrower

Person who is the obligor per the Note.

Synonyms

- Borrowers
- Borrower's

C

Commitment

Contractual agreement between you and Fannie Mae where Fannie Mae agrees to buy a Mortgage Loan at a future date in exchange for an MBS, or at a specific price for a Cash Mortgage Loan, and you agree to Deliver that Mortgage Loan.

Effective: 04/05/2024

Synonyms

- Committed
- Commitments

D



DUS Gateway

Multifamily pre-acquisition system, or any successor systems, recording deal registration, Pre-Review and/or waiver tracking, Mortgage Loan Commitments, and decision records.

E

Efficiency Measures

Energy- and water-efficiency measures that the Borrower agrees to implement per the Multifamily Loan Agreement to qualify as a Green Rewards Mortgage Loan, and which project a reduction in the Property's annual energy or water consumption.

Synonyms

Efficiency Measure

Environmental Site Assessment

Investigation and resulting report (Phase I ESA or Phase II ESA) conducted per Environmental Due Diligence Requirements (Form 4251), identifying if a Property has Recognized Environmental Conditions or Business Environmental Risks.

Synonyms

• ESA

F

Form 4660

Multifamily Underwriting Standards identifying Pre-Review Mortgage Loans and containing the underwriting requirements (e.g., debt service coverage ratio, loan to value ratio, interest only, underwriting floors, etc.) for all Mortgage Loans.

Synonyms

Multifamily Underwriting Standards

G

Gross Note Rate

Interest rate stated in the Loan Documents.



Guarantor

Key Principal or other Person executing a

- · Payment Guaranty,
- · Non-Recourse Guaranty, or
- any other Mortgage Loan guaranty.

Synonyms

Guarantors

\mathbf{H}

Hybrid ARM Loan

Mortgage Loan with a total term of 30 years, comprised of an initial term when interest accrues at a fixed rate, and which automatically converts to a term where interest accrues at an adjustable rate.

Synonyms

Hybrid ARM Loans

K

Key Principal

Person who

- controls and/or manages the Borrower or the Property,
- is critical to the successful operation and management of the Borrower and the Property, and/or
- may be required to provide a Guaranty.

Synonyms

- Key Principals
- Key Principal's

L

Lender

Person Fannie Mae approved to sell or service Mortgage Loans.

Effective: 04/05/2024

Synonyms

- Lenders
- Lender's



Lien, mortgage, bond interest, pledge, security interest,

charge, or encumbrance of any kind.

Synonyms

Liens

Loan Documents All Fannie Mae-approved documents evidencing,

securing, or guaranteeing the Mortgage Loan.

Synonyms

Loan Document

Mortgage Loan Document

Mortgage Loan Documents

M

Maturity Date Date all Mortgage Loan amounts become fully due and

payable per the Loan Documents.

Synonyms

Maturity Dates

MBS Mortgage-Backed Security

MBS Mortgage Loan Mortgage Loan purchased by Fannie Mae in exchange

for an issued MBS backed by the Mortgage Loan.

Synonyms

• MBS Mortgage Loans

Mortgage Loan Mortgage debt obligation evidenced, or when made will

be evidenced, by

• the Loan Documents, or

• a mortgage debt obligation with a Fannie Mae credit

Effective: 04/05/2024

enhancement.

Synonyms

Mortgage Loans

Mortgage Loan's



Mortgage Loan Origination Date

Date you fund a Mortgage Loan to the Borrower.

Synonyms

- Mortgage Loan's Origination Date
- Origination Date

P

PCA Report

Property Condition Assessment Report documenting the findings of a PCA.

Pre-Existing Mortgage Loan

Multifamily residential real estate loan secured by Liens against the Property having higher priority than the Lien securing the Subordinate Loan purchased by Fannie Mae.

Synonyms

Pre-Existing Mortgage Loans

Prepayment Premium Period End Date

Last date when a Borrower owes a Prepayment Premium for a voluntary Mortgage Loan prepayment.

Principal

Person who owns or controls specified interests in the Borrower per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 303: Key Principals, Principals, and Guarantors.

Synonyms

Principals

Property

Multifamily residential real estate securing the Mortgage Loan, including the

- fee simple or Leasehold interest,
- · Improvements, and
- personal property (per the Uniform Commercial Code).

Effective: 04/05/2024

Synonyms

- Properties
- Property's



Property Condition Assessment

Assessment of the Property's physical condition and historical operation.

Synonyms

- PCA
- PNA
- Physical Needs Assessment
- PCAs

R

Replacement Reserve

Custodial Account the Borrower funds during the Mortgage Loan term for Replacements.

Synonyms

Replacement Reserves

Replacement Reserve Schedule

The Required Replacement Schedule to the Multifamily Loan Agreement (Form 6001 series) and the applicable parts of the Multifamily Loan Agreement (or other agreement approved by Fannie Mae), that evidence the:

• Borrower's agreement to replace identified capital items and perform required maintenance;

Effective: 04/05/2024

- terms for funding the identified capital item replacement and maintenance; and
- disbursement of Replacement Reserve funds.

Synonyms

• Replacement Reserve Schedules

S

Senior Mortgage Loan

Senior loan purchased by Fannie Mae.

Synonyms

Senior Mortgage Loans



Servicer

Primary Person servicing the Mortgage Loan, including

- the originator,
- seller, or
- a third party.

Synonyms

- Servicers
- Servicer's

Supplemental Mortgage Loan

Mortgage Loan purchased by Fannie Mae that is subordinated to, and has a Mortgage Loan Origination Date after, the Senior Mortgage Loan that is also owned by Fannie Mae.

Synonyms

Supplemental Mortgage Loans

T

Tier Dropping Supplemental Mortgage Loan

A Supplemental Mortgage Loan where

- the combined Underwritten DSCR of the Supplemental Mortgage Loan and all Pre-Existing Mortgage Loans is below the minimum Underwritten DSCR of the original underwriting Tier of the Senior Mortgage Loan, or
- the combined LTV of the Supplemental Mortgage Loan and all Pre-Existing Mortgage Loans is above the maximum LTV of the original underwriting Tier of the Senior Mortgage Loan.

Synonyms

• Tier Dropping Supplemental Mortgage Loans

Transfer/Assumption

Transaction changing the ownership of the Borrower or Property.

Effective: 04/05/2024

Synonyms

• Transfers/Assumptions

U



UCC Uniform Commercial Code

UPB Unpaid Principal Balance

Synonyms
• UPBs

 \mathbf{V}

Variable Underwriting Rate for

Rate

Rate for Structured ARM Mortgage Loans per Part III, Chapter 12: Structured Adjustable Rate Mortgage

(SARM) Loans, Section 1202: Underwriting.

W

Watchlist The risk rating classification if you or Fannie Mae

determine the Mortgage Loan has heightened credit risk.