Multifamily Selling and Servicing Guide

Effective as of October 26, 2023

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Part I  Mortgage Loan

Chapter 1  Overview

Section 101  Using the Guide

101.01  Organization

☑ Requirements

The Guide is divided into 3 categories:

- Requirements are mandatory conditions that must be satisfied for all Lender-delegated Mortgage Loans and activities. You must obtain Fannie Mae’s prior approval to Deliver a Mortgage Loan or perform an activity that does not comply with any requirement.

- Guidance are best practices to inform and support a Lender’s delegated analysis and decision-making. Fannie Mae expects you to exercise your delegated authority in a prudent manner, and will review your analysis and delegated decisions.

- Operating Procedures are required steps or processes that must be followed.

The Lender Contract provides Fannie Mae with certain rights, remedies, and corrective actions if you fail to satisfy requirements, follow the operating procedures, or exercise delegated authority in a prudent manner.

If the Guide does not specify a category, then the information is a requirement.

101.02  References

☑ Requirements

The following rules apply:

- a reference to the Guide includes any:
  - update, amendment, restatement, modification, or supplement; and
  - referenced exhibits, appendices, or other forms;

- a reference to any Person also includes the Person's successors and assigns;

- a reference to any Loan Document, statute, regulation, or standard, also
includes all amendments, modifications, or restatements made from time to time; and

- whenever you make a representation “to your knowledge” or “to the best of your knowledge,” you mean the actual state of knowledge of your officers and employees responsible for the underwriting, origination, servicing, or sale of the Mortgage Loan regarding the matters expressly set forth in the representation, in each case without having conducted any independent inquiry into such matters, and without any obligation to do so (except as expressly set forth herein). All information contained in documents which are part of or required to be part of your Servicing File is deemed to be within your knowledge.

Registered and unregistered trademarks can be found on Fannie Mae’s trademarks website. You must include the appropriate trademark symbols when using Fannie Mae’s protected words and phrases, and comply with the instructions on the website.

Section 102 Delegation and Underwriting

Requirements

You must comply with the Guide in its entirety. Your Lender Contract describes your delegated authority to underwrite and Deliver Mortgage Loans.

For underwriting and Delivery to be fully delegated to you, you must underwrite the Mortgage Loan to meet the requirements provided in

- the Multifamily Underwriting Standards (Form 4660),
- Part I,
- Part II, and
- the applicable chapters of Part III based on the specific products and features of the Mortgage Loan.

If the Mortgage Loan does not comply with the applicable requirements, it is a Pre-Review Mortgage Loan (see Part I, Chapter 2: Mortgage Loan, Section 203: Pre-Review Mortgage Loans).

Section 103 Transaction Approval Memo

Requirements

Your Transaction Approval Memo must:

- document your analysis of all reasonably identifiable strengths and
weaknesses of the proposed Mortgage Loan transaction; and

- address and mitigate the following:
  - Property’s financial performance, trends, and value;
  - Property’s current physical condition and expected condition over the term of the Mortgage Loan;
  - environmental conditions and seismic risk impacting the Property;
  - ability of the Property to be refinanced at the Maturity Date;
  - Borrower’s, Key Principals’, and Guarantors’ financial capacity and experience;
  - Property market’s performance and trends;
  - any other factors that could impact the transaction during the Mortgage Loan term or at the Maturity Date; and
  - analysis and support for your decisions on any matters covered by requirements or guidance in Parts I, II, and III.

Guidance

Fannie Mae will consider the quality and thoroughness of your analysis, and the appropriateness and quantity of adjustments made

- in the underwriting,
- during the monitoring process, and
- when exercising the remedies or corrective actions provided in the Lender Contract.

Section 104 Representations

Requirements

When you Deliver a Mortgage Loan to Fannie Mae you represent that:

- At all times during the origination and underwriting of the Mortgage Loan, you were authorized to transact business in the Property's jurisdiction. If you were not authorized, then none of your activities related to the Mortgage Loan requires authorization to transact business in the Property's jurisdiction.

- If the laws of the Property's jurisdiction do not require you to be authorized to do business, then this lack of authorization will not adversely affect the mortgagee's ability to enforce the Mortgage Loan.
You are the sole owner and holder of the Mortgage Loan and have full right and authority to sell the Mortgage Loan to Fannie Mae.

Your right to sell the Mortgage Loan to Fannie Mae is not subject to any other party’s interest or Lien, or to any agreement with any other party.

You complied with all applicable federal or state laws, regulations, or other requirements regarding

- fair lending,
- fair housing,
- consumer credit,
- equal credit opportunity,
- truth-in-lending, and
- the prohibition of redlining and other forms of discrimination.

Unless modified by Fannie Mae’s Pre-Review approval, the Mortgage Loan meets

- the requirements of the Guide,
- the Form 4660, and
- all applicable requirements of your Lender Contract.

The Mortgage Loan either meets or is exempt from any usury laws or regulations.

The Loan Documents you deliver to Fannie Mae are the appropriate and correct forms for the particular transaction under the Guide and contain the same provisions as those provided to you by Fannie Mae (except for completion of blanks, deletion of bracketed information which is not applicable, and other changes approved by Fannie Mae).

The Borrower is not in default under any of the terms of the Loan Documents and would not be in default under any of the terms of the Loan Documents with the passage of time, the giving of notice, or both.

The terms and conditions of the Mortgage Loan (as reflected in the Loan Documents) have not been amended, modified, or supplemented by

- any other agreement or understanding of the parties, or
- waiver of any of the material provisions of those Loan Documents.

All documents that evidence, secure, or otherwise relate to the Mortgage Loan have been delivered to Fannie Mae. If you are not the actual party assigning the Mortgage Loan to Fannie Mae because of the financing structure (e.g., a variable rate bond transaction), you make this representation only to the best of your knowledge.
The Mortgage Loan has not been satisfied, cancelled, released, or subordinated, and Fannie Mae has approved in writing any material modification to the Mortgage Loan occurring after the Mortgage Loan Origination Date, including any change in the:

- Mortgage Loan amount, Gross Note Rate, Maturity Date, amortization period, or timing of payments;
- Collateral or Lien priority;
- reserve types required per the Loan Documents or their release provisions;
- Mortgage Loan recourse provisions, including the addition of new non-recourse carveouts;
- Borrower's organization type; or
- Persons personally liable for the Mortgage Loan, including any Payment Guaranty or additional credit enhancement.

The Lien on the Collateral identified in the Transaction Approval Memo is valid.

The Borrower has properly signed the Loan Documents; they are valid and enforceable obligations of the Borrower, subject to bankruptcy, reorganization, or insolvency laws, or other general principles of equity.

To the best of your knowledge, as of the Delivery of the Mortgage Loan:

- the Property does not have any subordinate loans that have not been pre-approved by Fannie Mae;
- the Property has not been damaged by any Catastrophic Event;
- the Property has not been condemned or been a part of any proceeding that would impair
  - the value of the Mortgage Loan,
  - the value of the Property, or
  - the usefulness of the Property for the contemplated purpose; and
- there are no proceedings – pending or contemplated – to partially or totally condemn the Property.

To the best of your knowledge:

- the credit reports and financial statements relating to the Borrower(s) (and to any other person or entity required by the Guide) correctly reflect the financial condition of these person(s) without material exception; and
- as of the Delivery of the Mortgage Loan, none of the following is the
subject of an existing or contemplated bankruptcy, reorganization, insolvency, or comparable proceeding

— any Borrower,
— any general partner of a Borrower,
— any Key Principal,
— any Guarantor, or
— any other party whose bankruptcy could negatively impact one of these parties.

If the Mortgage Loan is insured or guaranteed by any Person, including any governmental authority

● you have ensured that insurance or Guaranty is in effect, and
● you have complied with all applicable provisions of the insurance or Guaranty that covers the Mortgage Loan.

The Property is free of all mechanics’, materialmen’s, or similar Liens, and there are no rights outstanding that could cause such liens. (The only exceptions are mechanics’ or materialmen’s Liens which attach automatically under the laws of any governmental authority when work is started or materials are delivered to the Property and the Borrower is not delinquent in the payment for this work or materials).

You have not made or knowingly received from others, any advance of funds (directly or indirectly) on behalf of the Borrower connected with the Mortgage Loan transaction, except for funds permitted in the Guide or related to interest paid from the earliest of the:

● date of the Note;
● date the Mortgage Loan proceeds were disbursed to the Borrower; or
● date 1 month before the first installment of P&I on the Mortgage Loan is due.

To the best of your knowledge, based solely on the survey and the title insurance policy connected with the origination of the Mortgage Loan (except for encroachments that do not materially and adversely affect the current marketability or principal use of the Property, or that are insured against by the title insurance policy):

● all material improvements used to determine the appraised value of the Property when the Mortgage Loan was originated are within the boundaries of the Property;
● no material improvements on adjoining parcels encroach onto the Property; and
no material improvements encroach onto any easements.

To the best of your knowledge, nothing involving the Mortgage Loan, the Property, or the Borrower can reasonably be expected to:

- cause private institutional investors to regard the Mortgage Loan as an unacceptable investment;
- cause the Mortgage Loan to become delinquent; or
- adversely affect the Mortgage Loan's value or marketability.

If the Mortgage Loan provides that the interest rate or principal balance may be adjusted, Fannie Mae may enforce the terms of the Mortgage Loan, and these adjustments will not affect the priority of the Lien.

All Mortgage Loan proceeds were funded on the Mortgage Loan Origination Date

- directly to or for the benefit of the Borrower, or
- to fund reserves or escrows per the Loan Documents.

All electronic data you submit is accurate and complete.

If Fannie Mae’s interest in the Mortgage Loan is a Participation Interest, all of the information and statements in any participation certificate that you deliver are complete, correct, and true.

**Guidance**

Redlining is illegal and occurs when a lender provides unequal access to credit, or offers unequal credit terms, because of the race, color, national origin, or other prohibited characteristics of the residents of the area in which the mortgaged property is located.

You may consider locational factors when appraising and underwriting if your risk analysis applies Fannie Mae’s guidelines in a consistent, equitable, and legal manner.
Chapter 2  Mortgage Loan

Section 201  Registration and Multifamily Affordability Estimator

Requirements

You must:

- register each Mortgage Loan in DUS Gateway; and
- submit the Multifamily Affordability Estimator (MAE), and all other required affordability data, in DUS Gateway at the earlier of when you:
  - request a pricing quote, if it will incorporate the Property's affordability; and
  - place the transaction under application.

Operating Procedures

You must submit:

- the MAE;
- all required data fields, including the following based on the completed MAE:
  - "% Mission Driven" in the "Deal Overview" section;
  - percent of AMI in the "Property Detail" section:
    - "% of Units <= 80% of AMI";
    - "% of Units <= 60% of AMI"; and
    - "% of Units <= 50% of AMI"; and
- loan options based on the proposed transaction structure.

Section 202  Delegated Mortgage Loans

Requirements

If your Lender Contract provides you with the delegated authority, you may underwrite, commit, and Deliver any fully-delegated Mortgage Loan (see Part I, Chapter 1: Overview, Section 102: Delegation and Underwriting).

Section 203  Pre-Review Mortgage Loans
Requirements

You must obtain Fannie Mae’s Pre-Review approval before requesting a Commitment for any Pre-Review Mortgage Loan and any Mortgage Loan that is not fully delegated to you.

You must ensure that your Chief Underwriter, or a delegated employee directly supervised by your Chief Underwriter, reviews and approves all material supporting the Pre-Review approval request before submitting it.

Operating Procedures

The Pre-Review approval process must follow these steps:

Step 1: You submit a Pre-Review request to the Fannie Mae Deal Team via DUS Gateway that includes, at a minimum:

- a loan-sizing spreadsheet with the preliminary Underwritten NCF and a refinance risk analysis;
- a narrative describing the overall transaction, including risks and mitigating factors for Pre-Review reasons; and
- any additional information requested by Fannie Mae.

Step 2: Fannie Mae’s Pre-Review response will indicate:

- Approval. You have Pre-Review approval to underwrite the Mortgage Loan and request a Commitment on the proposed terms without further Fannie Mae approval before purchase.
- Resubmission Required. You are authorized to underwrite the Mortgage Loan on the proposed terms and pricing, but you must resubmit it after full underwriting for Fannie Mae Pre-Review approval at least 10 Business Days before requesting a Commitment.
- Decline Approval. You do not have Fannie Mae Pre-Review approval and may not request a Commitment on the proposed terms. Fannie Mae will issue a notice of denial containing its rationale.
<table>
<thead>
<tr>
<th>If you...</th>
<th>Within 30 days of Fannie Mae’s notice of denial, you must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Either:</td>
<td>• issue the Borrower an adverse action letter including Fannie Mae’s denial reasons; and</td>
</tr>
<tr>
<td>• deny the Borrower credit; or</td>
<td>• upload into the Deal Documents section of DUS Gateway your:</td>
</tr>
<tr>
<td>• offer the Borrower another quote, commitment, or credit option (from a source other than Fannie Mae) that the Borrower does not expressly accept</td>
<td>- copy of final adverse action letter; and</td>
</tr>
<tr>
<td></td>
<td>- issuance evidence (e.g., email, certified mail receipt, courier receipt, etc.).</td>
</tr>
<tr>
<td>Offer the Borrower another quote, commitment, or credit option (from a source other than Fannie Mae) that the Borrower expressly accepts</td>
<td>upload into the Deal Documents section of DUS Gateway a statement confirming:</td>
</tr>
<tr>
<td></td>
<td>• the Borrower expressly accepted the credit; and</td>
</tr>
<tr>
<td></td>
<td>• you sent no adverse action letter.</td>
</tr>
</tbody>
</table>

**Section 204 Letters of Credit**

**204.01 Generally**

> **Requirements**

You must comply with this Section for all Letters of Credit posted as Collateral for a Mortgage Loan.

You must obtain Fannie Mae’s approval for any new or renewal Letter of Credit, regardless of whether the Letter of Credit is required by you or Fannie Mae.

All Letters of Credit must:

- Name Fannie Mae as the sole beneficiary.
- Have a minimum term of 1 year.
- Be issued or confirmed by a financial institution that meets the eligibility criteria in Part I, Chapter 2: Mortgage Loan, Section 204.02: Issuers and Ratings.
All Letters of Credit must meet the requirements in the Irrevocable Letter of Credit Instructions (Form 4663), including the form of sight draft on the Issuer.

**Operating Procedures**

**How do you request approval to use a Letter of Credit?**

Step 1: Complete the Letter of Credit Authorization and Certification Form (Form 4664.B) that states

- whether the Letter of Credit is new or will renew or confirm an existing Letter of Credit, and
- that the Letter of Credit is posted as Collateral for a Mortgage Loan.

Step 2: Indicate whether the Letter of Credit is required by the Guide or is required by you as additional collateral. If you require the Letter of Credit, include the Loan Document imposing the requirement.

Step 3: Send the completed Form 4664.B to Lender Risk Management.

**What do you do after Fannie Mae has approved a Letter of Credit?**

Step 1: Send the original Letter of Credit:

- to be delivered the following business day; and
- addressed to Multifamily Certification and Custody, Attention: Manager, Multifamily Operations - Recourse and Collateral.

Step 2: Include Form 4664.B in the Mortgage Loan Delivery Package

Step 3: Retain a copy of Form 4664.B in your Servicing File.

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**204.02 Issuers and Ratings**

**Operating Procedures**

**Who is eligible to issue a Letter of Credit?**

A financial institution that satisfies the ratings criteria may issue or confirm a Letter of Credit.

You, one of your Affiliates, or an Affiliate of the Borrower, may issue a Letter of Credit, but only if it is confirmed by a financial institution that is not an Affiliate of you or the Borrower.

Fannie Mae, in its sole discretion, may prohibit you from obtaining a Letter of Credit (or confirming a Letter of Credit) from a specific financial institution.

**What ratings do Issuers need to satisfy?**
A financial institution is eligible to issue or confirm a Letter of Credit if it satisfies the following ratings criteria:

- a Standard and Poor’s long-term issuer rating of "A" or better; or
- a Moody’s long-term issuer rating of “A2” or better.

### 204.03 Verifying Issuer Ratings

#### Requirements

You must monitor and verify the rating of any financial institution issuing or confirming a Letter of Credit

- throughout the term of the Letter of Credit,
- on each anniversary of the date of issuance, and
- on the date of any renewal, replacement, or amendment.

If the ratings of the financial institution issuing or confirming the Letter of Credit fall below the ratings criteria you must

- contact Multifamily Business Operations promptly, and
- use a financial institution that satisfies the ratings criteria to replace or confirm the Letter of Credit.

A change from “stable” or “positive outlook” to “negative outlook” or “on watch for downgrade” would represent a fall below the ratings criteria.

### 204.04 Restrictions on Issuer Collateral

#### Requirements

You must ensure that the Issuer does not collateralize the Letter of Credit with a lien on

- the Property, or
- any personal property that secures the Mortgage Loan.

### 204.05 Drawing on Letter of Credit

#### Operating Procedures

You may, with Fannie Mae’s written approval, instruct the issuing bank to honor a draw on the Letter of Credit by depositing the proceeds into an account designated by Fannie Mae.
Chapter 3  
Borrower, Guarantor, Key Principals, and Principals  
Section 301  
Generally  

☑ Requirements  

You must:  

- perform a risk assessment of the Borrower, Guarantor, Key Principals, and Principals based solely on objective credit standards; and  

- ensure all:  
  - Potential Red Flags for Mortgage Fraud and Other Suspicious Activity were evaluated; and  
  - unresolved red flags were reported per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance.  

Prohibited practices include:  

- basing the risk assessment on any characteristic protected by any fair housing or fair lending law, including  
  - race,  
  - color,  
  - religion,  
  - sex,  
  - handicap,  
  - familial status, or  
  - national origin of the prospective  
    - Borrowers,  
    - Guarantors,  
    - Key Principals,  
    - Principals,  
    - Property occupants, or  
    - residents of the Property's neighborhood; or  

- using  
  - unsupported assumptions,
personal opinions, or
unsupported perceptions.

Guidance

You should:

- Complete a credit review by analyzing information about their
  organizational structure,
  multifamily business experience and qualifications,
  general credit history, and
  current and prospective financial condition.

- Ensure the financial strength, experience, qualifications, and credit history
  of the Borrower, Guarantor, Key Principals, and Principals support the
  size, complexity, structure, and risk of the transaction.

Section 302  Borrower Organizational Structure

302.01  Single-Asset Entity

Requirements

You must ensure that

- the Borrower is a domestic single-asset entity, and
- if the Borrower is ultimately owned by foreign persons or entities, it has at
  least 1 domestic tier of ownership.

Guidance

As you analyze the Borrower and its organizational documents to confirm that it is a single-asset entity, consider the following questions:

- Can the Borrower acquire any additional real property, personal property, or assets?
- Can the Borrower participate in any business other than managing and operating the Property?
- Are the Borrower’s assets or funds commingled with anyone else’s? If so, can these assets or funds be separated and identified?
- Are the Borrower’s financial statements, accounting records, and other
organizational documents maintained with anyone else’s?

- Except for the Mortgage Loan, has the Borrower assumed, guaranteed, or obligated itself to cover anyone else’s liabilities?

**Requirements**

If the Borrower owns more than a single asset, the Borrower may still qualify as a single asset entity if you:

- Obtain an operating statement for each real property owned.
- Obtain proof that the Borrower has no existing debt secured by a Lien on any of the Borrower’s real property, other than a Mortgage Loan purchased by Fannie Mae.
- Obtain proof that the Borrower does not have any direct or indirect equity interest subject to mezzanine financing.
- Ensure that the Loan Documents prohibit the Borrower from
  - acquiring any additional debt (except for supplemental debt on existing Fannie Mae loans),
  - increasing any existing debt, or
  - acquiring any additional real property.

**Guidance**

As you analyze the Borrower that owns more than a single asset, you should consider whether its other real estate assets are only

- multifamily properties, or
- other types of real estate that do not pose an environmental risk to the Borrower.

### 302.02 Co-Tenant Borrowers

**Requirements**

You must ensure that any Co-Tenant Borrower meets these eligibility requirements:

- the Borrower has no more than 10 co-tenants;
- no co-tenant is an individual;
- each co-tenant is a single-asset entity complying with Part I, Chapter 3:
Borrower, Guarantor, Key Principals, and Principals, Section 302.01: Single-Asset Entity; and

- each co-tenant has jointly and severally executed the Loan Documents.

### 302.02A Tenancy-in-Common Agreement

**Requirements**

You must ensure that a validly executed Tenancy-in-Common Agreement is in place prior to or at the Mortgage Loan closing.

You must review the agreement to ensure that:

- Each co-tenant is bound by the terms of the agreement.
- The Property has a manager of its day-to-day business and affairs, which can be
  - a single co-tenant (or the Key Principal of such co-tenant) known as the "co-tenant representative", or
  - a validly-appointed property manager.
- Distributions to the co-tenant representative are subordinate to
  - all payments under any Mortgage Loan secured by a Lien on the Property, and
  - the terms and conditions of any such Mortgage Loan.

**Guidance**

As you analyze the Tenancy-in-Common Agreement, consider the following questions. The term “co-tenant” also includes any Key Principal who has the rights of the co-tenant.

**Representation**

- Have the Co-Tenant Borrowers given the co-tenant representative the power to deal with the Lender through the Tenancy-in-Common Agreement or an irrevocable power-of-attorney?
- Has each Co-Tenant Borrower waived its right to reside in the Property?

**Buy outs**

- Does each Co-Tenant Borrower have buy out rights to any other co-tenant?
- Is each Co-Tenant Borrower financially able to buy out any other co-
tenant?

Communication

- Does each Co-Tenant Borrower have a name, address, telephone number, and percentage of ownership interest listed?
- Has each Co-Tenant Borrower agreed to promptly notify all other Co-Tenant Borrowers and you if their address or telephone number changes?
- Has a single Key Principal of the co-tenant representative agreed to receive any communication from you on behalf of all Co-Tenant Borrowers?

302.02B Key Principal Execution of Guaranty

☑️ Requirements

You must ensure that:

- each Co-Tenant Borrower names at least 1 Key Principal; and
- if a Guaranty is required, each Key Principal must become a Guarantor and execute either a Non-Recourse Guaranty or Payment Guaranty.

302.03 Joint and Several Borrowers with Multiple Properties

☑️ Requirements

If a Mortgage Loan not in a Credit Facility is secured by multiple Properties and any Property is owned by a different Borrower, you must require each Borrower to:

- execute a single set of Loan Documents with joint and several liability for the Mortgage Loan;
- comply with the “single purpose entity” requirements per Modifications to Multifamily Loan and Security Agreement (Co-Borrowers) (Form 6274);
- be owned by the same Persons having the same percentage ownership interests (whether direct or indirect);
- be Controlled by the same Sponsor or Key Principal;
- execute Form 6274, restricting Property Transfer/Assumption or release during the Mortgage Loan term;
- execute an acceptable Contribution Agreement complying with Form 6274; and
- if separate Security Instruments are recorded to encumber Properties in different counties, execute separate Modifications to Security Instrument (Co-Borrowers) (Form 6322) for each Security Instrument.

Each Property securing the Mortgage Loan must:
- be in the same State; and
- comply with Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership.

### Section 303  
Key Principals, Principals, and Guarantors

**Requirements**

For every Mortgage Loan, you must:
- Identify and underwrite any Guarantor and all Key Principals and Principals of the Borrower.
- Ensure the Guarantor
  - is not a foreign person or a foreign entity, and
  - either has an ownership interest in the Borrower or ensure that the Guarantor has adequate consideration to enter into the Guaranty.

You must identify the Principals based on the aggregate of all direct and indirect ownership interests in the Borrower held per the following table.

<table>
<thead>
<tr>
<th>If the Borrower is a...</th>
<th>Then a Principal is...</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Partnership or Joint Venture</td>
<td>any general partner or joint venturer.</td>
</tr>
<tr>
<td>Limited Partnership</td>
<td>all general partners and any Person who owns a 25% or more limited partnership interest.</td>
</tr>
<tr>
<td>Privately-Held Corporation</td>
<td>any Person who owns 25% or more of the voting stock.</td>
</tr>
<tr>
<td>Limited Liability Company</td>
<td>all non-member managers, member-managers, and any Person who owns a 25% or more membership interest.</td>
</tr>
<tr>
<td>Trust (other than a Land Trust)</td>
<td>the grantor (if the trust is a revocable trust or if the grantor or settlor has retained powers), any Person who has a 25% or more beneficial interest in the trust, and any trustee.</td>
</tr>
</tbody>
</table>
If the Borrower is a... | Then a Principal is...
---|---
Land Trust | any Person who owns a 25% or more beneficial interest in the land trust.

### 303.01 Entity Review

**Guidance**

When you review an entity, consider the following questions:

- Is it an existing entity (e.g., a corporation, limited liability company, limited liability partnership, or other acceptable structure) that is not newly formed?
- Is it a well-capitalized, stable, on-going business that would be expected to:
  - Remain financially healthy?
  - Support the Property?
  - Meet all Guarantor requirements and obligations under the Guaranty?
  - Have assets and net worth that are significantly greater than what would be minimally acceptable for an individual Key Principal?

### 303.02 Fund

**Guidance**

When you review a fund, consider the following questions:

- What is the experience and performance history of the fund manager with similar funds?
- Can the fund raise equity from financially substantial investors?
- What is the performance of the fund?
- What is the leverage level of the fund?
- What is the net worth and liquidity of the fund?
- What is the type and quality of
  - the Property and market,
  - other existing properties and markets, and
  - any potential additional properties and markets targeted by the fund pursuant to its agreements?
Additionally, you should review the organizational documents and private placement memorandum (if applicable) for the following information:

- the fund’s expiration date;
- any extension to the fund’s existence and conditions to approve that extension; and
- the process for winding up the business affairs of the fund, including whether the fund is organized in a state that requires the orderly dissolution of investment funds, such as Delaware or Illinois.

### Section 304 Financial Statements

**Requirements**

You must:

- obtain signed financial statements from all parties relevant to the Mortgage Loan; and
- ensure all:
  - Potential Red Flags for Mortgage Fraud and Other Suspicious Activity were considered; and
  - unresolved red flags were reported per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance.

<table>
<thead>
<tr>
<th>If the financial statements...</th>
<th>Then...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are dated less than 12 months before the Commitment Date</td>
<td>You do not need a signed &quot;no material adverse change&quot; certification.</td>
</tr>
<tr>
<td>Are dated 12–24 months before the Commitment Date</td>
<td>You must include a signed certification dated within 30 days before loan application that states they have experienced no material adverse change to their financial condition.</td>
</tr>
<tr>
<td>Are dated more than 24 months old</td>
<td>You cannot use them.</td>
</tr>
</tbody>
</table>

For all financial statements, you must collect:

- A schedule of real estate owned by the party providing the financial
statement, including the loan information (such as lender, DSCR, and maturity date) for all assets on the schedule.

- A listing of all other assets, including
  - notes receivable from related entities, and
  - an estimate of the market value of each asset and the basis for calculating value estimates.

- All liabilities and contingent liabilities, including
  - debts under lines or letters of credit,
  - personal guaranties,
  - unmet obligations to partnerships or other entities, and
  - other future obligations (describe the amount and timing of these).

- Any other factors that may impact the party’s financial position immediately or during the term of the Mortgage Loan (including any known threat of potential lawsuits that may arise from the parties’ business operations).

Section 305  Multifamily Underwriting Certificate

- Requirements

You must obtain the appropriate Multifamily Underwriting Certificate (Form 6460) from the Borrower and each Key Principal.

You must ensure that the Form 6460 is

- signed and certified as true, correct, and complete, and
- dated within 90 days before the Commitment date.

If the 90-day limit is exceeded, the Borrower and Key Principals must certify that there has been no material adverse change to the financial condition shown in the Form 6460.

You must keep a copy of the Form 6460 in your Servicing File.

Section 306  Fraudulent Conveyance

- Requirements

You must not obtain a Commitment for any Mortgage Loan if you believe that the Borrower, Key Principals, Principals, or Guarantors intend to delay, hinder, or defraud creditors.
Guidance

To show that you have made the Mortgage Loan in good faith, consider the following questions:

- Have you carefully reviewed the facts so that you have a clear defense to potential fraudulent conveyance or fraudulent transfer claims?
- Have you obtained a Form 6460 that confirms the Borrower’s good faith?

Section 307 Applicant Experience Check

Requirements

For both initial applications, Supplemental Mortgage Loans, and any Transfer/Assumption, you must perform an ACheck™ and receive a "Continue Processing" response for

- the Borrower,
- each Key Principal of the Borrower,
- each Principal of the Borrower,
- each Guarantor, and
- any person who owns or controls an entity Key Principal.

Operating Procedures

Where can you find ACheck?

You can find the ACheck application at https://multifamily.fanniemae.com/applications-technology/acheck.

When do you use the ACheck application?

As soon as you receive an application request and the necessary tax identification numbers and/or social security numbers, enter the information into ACheck.

- If you have not yet identified all parties at this stage, you must enter all Key Principals, Principals, and Guarantors of the Borrower into ACheck as soon as you identify them.
- If more than 90 days pass between the initial ACheck and Commitment Date, you must repeat an ACheck.

How do you view ACheck results?

The ACheck application will provide either a “Continue Processing” or “Do
Not Process” electronic response instantaneously.

■ “Continue Processing” Response

You must receive a “Continue Processing” response in order to proceed with the application.

This does not mean that the Borrower, Key Principal, Principal, Guarantor, or Principal is approved; you are still required to complete full Mortgage Loan credit underwriting.

■ “Do Not Process” Response

If you receive a response stating “do not continue processing an application for a Fannie Mae loan that involves this applicant” (or similar wording), then:

■ Do not proceed with the application by omitting any Key Principal, Principal, or Guarantor for which a “Do Not Process” response was given.

■ Use the “Do Not Process” response to indicate that you need to have direct communication with Fannie Mae.

■ Follow the instructions provided by the ACheck application and contact Fannie Mae before proceeding to underwrite the Mortgage Loan.

■ Never use the “Do Not Process” response as the sole reason for rejecting or denying credit in any cases not involving Fannie Mae.

You will not be provided any information as to why a particular Borrower, Key Principal, Principal, or Guarantor received a “Do Not Process” response.

What about confidentiality?

You must establish procedures to ensure that all ACheck responses obtained for Borrowers, Key Principals, Principals, and Guarantors are kept confidential.

Section 308 Compliance

☑ Requirements

You must:

■ unless you are subject to, and complying with, the Bank Secrecy Act, establish and maintain effective procedures and controls (including employee training), similar to those required by the Bank Secrecy Act, to prevent, identify, and report potential:
• mortgage fraud; and
• other suspicious activity; and

confirm every Borrower, Key Principal, Principal, or Guarantor is not a Blocked Person.

Operating Procedures

If you identify Potential Red Flags for Mortgage Fraud and Other Suspicious Activity:

1. Do not inform the Borrower, any Borrower Affiliate, Key Principal, Principal, or Guarantor.
2. Evaluate the red flags to determine if a plausible business explanation exists.
3. Immediately report any unresolved red flags indicative of mortgage fraud or other suspicious activity to:
   - https://fims.my.salesforce-sites.com/MortgageFraudReport or (800) 232-6643; and
   - Lender Assessment Oversight.
4. Maintain all documentation relating to the potential mortgage fraud or other suspicious activity.
5. Promptly provide all related documentation to Fannie Mae upon request.
6. Do not provide any information to Fannie Mae that would indicate whether you have filed a Suspicious Activity Report (SAR) with the Financial Crimes Enforcement Network (FinCEN).

If you identify any Borrower, Key Principal, Principal, or Guarantor as a Blocked Person:

1. Report the Blocked Person to Lender Assessment Oversight within 24 hours.
2. Maintain all documentation relating to your searches.
3. Promptly provide all related documentation to Fannie Mae upon request.
4. Do not
   - Deliver the Mortgage Loan, or
   - proceed with the Mortgage Loan by omitting any Key Principal, Principal, or Guarantor that is a Blocked Person.
Section 309  Execution of Non-Recourse Guaranty

☑️ Requirements

You must obtain a Non-Recourse Guaranty from a Key Principal (the Guarantor) for any Mortgage Loan that has

- an Underwritten DSCR less than
  - 1.35 for fixed rate or
  - 1.10 for variable rate, or

- an LTV greater than 65%.

You do not need to obtain a Non-Recourse Guaranty if the Borrower is a Cooperative Organization or if the Key Principal (who would otherwise be the Guarantor) is a publicly traded entity.

Section 310  Conflict Mortgage Loans

310.01 Description

☑️ Requirements
<table>
<thead>
<tr>
<th>Conflict Mortgage Loan Type</th>
<th>Any Mortgage Loan in which:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• a Lender, any Lender Affiliate, or any Lender Senior Executive</td>
</tr>
<tr>
<td></td>
<td>• owns (or will own) any direct or indirect equity interest in the Borrower, or</td>
</tr>
<tr>
<td></td>
<td>• directly or indirectly controls the Borrower; or</td>
</tr>
<tr>
<td></td>
<td>• any Lender employee, or group of employees, owns (or will own) more than a 5% direct or indirect equity interest in the Borrower.</td>
</tr>
<tr>
<td></td>
<td>• Any Mortgage Loan with DLA Mezzanine Financing.</td>
</tr>
<tr>
<td></td>
<td>Any equity interest you acquire in the Borrower relating solely to obtaining the associated LIHTCs is not considered when determining if the Mortgage Loan is a Conflict Mortgage Loan (see Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 709: LIHTC Properties Lender Equity Interest).</td>
</tr>
<tr>
<td>Prohibited Conflict Mortgage Loan</td>
<td>Any Mortgage Loan in which</td>
</tr>
<tr>
<td></td>
<td>• the Lender or any single Lender Senior Executive owns more than a 5% direct or indirect equity interest in the Borrower,</td>
</tr>
<tr>
<td></td>
<td>• any group of Lender Senior Executives together owns more than a 10% direct or indirect equity interest in the Borrower, or</td>
</tr>
<tr>
<td></td>
<td>• the Lender or any Lender Affiliate is the Property manager.</td>
</tr>
</tbody>
</table>
### Conflict Mortgage Loan Type

<table>
<thead>
<tr>
<th>Controlling Conflict Mortgage Loan</th>
<th>Any Conflict Mortgage Loan where:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- the Lender</td>
<td>- can (other than through the exercise of a lender’s rights and remedies under the Loan Documents) require changes to the management, operations, or decision-making of the Borrower, the Key Principal, any Person holding a Controlling Interest in the Borrower or Key Principal, or any Principal or Guarantor, or</td>
</tr>
<tr>
<td>- owns any Preferred Equity in the Borrower;</td>
<td></td>
</tr>
<tr>
<td>- any Lender Affiliate or employee or group of employees of the Lender or any Lender Affiliate</td>
<td></td>
</tr>
<tr>
<td>- can require changes to the management, operations, or decision-making of the Borrower, the Key Principal, any Person holding a Controlling Interest in the Borrower or Key Principal, or any Principal or Guarantor,</td>
<td></td>
</tr>
<tr>
<td>- individually or together own a 25% direct or indirect equity interest in the Borrower or in any Person holding a Controlling Interest in the Borrower at or after loan origination (including any interest acquired as part of a Transfer/Assumption),</td>
<td></td>
</tr>
<tr>
<td>- own any Preferred Equity in the Borrower, or</td>
<td></td>
</tr>
<tr>
<td>- exercises rights under DLA Mezzanine Financing that results in a Controlling Conflict Mortgage Loan under these requirements; or</td>
<td></td>
</tr>
<tr>
<td>- any Lender Senior Executive owns any direct or indirect equity interest in the Borrower.</td>
<td></td>
</tr>
</tbody>
</table>

You must not
Deliver a Prohibited Conflict Mortgage Loan, or
cause any Portfolio Mortgage Loan to become a Prohibited Conflict Mortgage Loan.

### 310.02 Restrictions

#### 310.02A Underwriting

**Requirements**

You must ensure that no Lender employee or other person involved in Conflict Mortgage Loan underwriting and approval owns any direct or indirect equity interest in the Borrower.

You must include the following in your Transaction Approval Memo:

- the amount of any direct or indirect equity interest in the Borrower owned by any Lender Senior Executive, other Lender employee or group of employees; and
- answers to the following questions, including an explanation if your answer to a question is yes:
  - Does any Lender Senior Executive, other Lender employee or group of employees, or any person who participated in the underwriting or approval of the Mortgage Loan, own any direct or indirect equity interest in the Borrower?
  - Can any Lender Senior Executive, other Lender employee or group of employees, or any person who participated in the underwriting or approval of the Mortgage Loan, require changes to the management, operations, or decision-making of the Borrower?

In addition, your underwriting submission must include:

- copies of the Borrower's organizational documents and financial statements;
- copies of all organizational documents and financial statements for any Lender Affiliate that holds a direct or indirect equity ownership interest in the Borrower; and
- an organizational chart or diagram showing
  - the complete ownership structure of the Borrower,
  - the relationship among the Lender, Borrower, and applicable Lender Affiliate, and
  - the percentage ownership of each entity.
Operating Procedures

You must designate the Mortgage Loan as a Conflict Mortgage Loan in C&D.

310.02B Servicing

Requirements

As Servicer of a Controlling Conflict Mortgage Loan, you must not

- participate in loss mitigation or special asset management decisions if it becomes a Non-Performing Mortgage Loan, or
- be notified of, or participate in, any negotiations or communications between Fannie Mae and the Borrower, Key Principal, or Principal (or any Affiliate of any of them).

Fannie Mae will make reasonable efforts to provide copies of written communications between Fannie Mae and other parties.

These servicing restrictions apply as long as the Mortgage Loan is considered a Controlling Conflict Mortgage Loan.

Operating Procedures

1. Fannie Mae has sole discretion to decide what action, if any, to take regarding any Controlling Conflict Mortgage Loan, any Property securing a Controlling Conflict Mortgage Loan, or any Borrower or Guarantor.

2. If Fannie Mae decides that a Controlling Conflict Mortgage Loan has a material risk of default or other characteristics of increased risk, it can

   - designate a substitute servicer or subservicer, or
   - terminate (with or without cause) your right to service the Mortgage Loan.

3. Fannie Mae will comply with the Program Rules Part 3 Sections B and C relating to Fannie Mae initiated servicing transfers. After servicing is transferred, you will retain your loss sharing obligation.

310.02C No First Right of Refusal

Requirements
You will not have any First Right of Refusal to purchase a Property that secured a Conflict Mortgage Loan, even if the Loss Sharing Addendum to the MSSA grants you this right.

310.02D Additional Disclosure

Operating Procedures

For an MBS backed by a Conflict Mortgage Loan, you must indicate in C&D that additional disclosure is required, and whether it is the Lender, a Lender Affiliate, a Lender Senior Executive, a Lender employee, or group of employees who has a Controlling Interest or a non-Controlling Interest.

310.02E Notifications

Requirements

If, after delivering a Mortgage Loan, it becomes a Conflict Mortgage Loan, you must deliver all materials described in this Section to Multifamily Asset Management within 30 days after acquiring each equity interest.
Part II  Property
Chapter 1  Attributes and Characteristics
Section 101  Eligible Properties

101.01  Generally

Requirements

For a Mortgage Loan to be eligible for purchase, it must be secured by a multifamily residential property that meets all of the following:

- contains at least 5 dwelling units;
- does not include a stand-alone building containing less than 5 dwelling units (e.g., a single-family structure), unless it:
  - was originally constructed as part of a single multifamily development; or
  - is situated on the same tax parcel, or shares a tax parcel boundary, with a
    - multifamily property, or
    - MH Community;
- has suitable bathroom and cooking facilities within each unit;
- is located in 1 of the 50 states of the United States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, or Guam;
- is located on a publicly dedicated, all-weather road, or is accessible by a satisfactory easement from this type of road;
- consists of either a single parcel or multiple parcels per Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership;
- any commercial space is:
  - physically part of, and connected to, the multifamily space; or
  - a stand-alone building that is on the same tax parcel;
- has adequate water and sewer service, which may be delivered by a public utility or, where commercially acceptable for the market area, by a private system or utility;
- offers a suitable level of utility service (e.g., electrical, natural gas, refuse removal, etc.) for the market area;
either complies with all applicable statutes, rules, regulations, and housing and building codes, or is being appropriately remediated;

- does not contain any Modular Housing; and

- has access to police and emergency services.

 Guidance

To determine if a single-family structure was originally constructed as part of a single multifamily development, you should consider if all buildings:

- were originally constructed at the same time;

- were historically bought, operated, and sold as 1 Project since originally constructed;

- are generally consistent in physical appearance, with distinct boundaries such as
  - signage,
  - gates/fencing,
  - shared parking, or
  - dedicated streets;

- are located on a single tax parcel or adjacent tax parcels;

- are configured without any non-Borrower owned parcels or buildings separating/splitting or within the multifamily development; and

- are not part of a predominately homeowner development.

101.02 Expanded Housing Choice

 Guidance

A Mortgage Loan is eligible for a pricing incentive if the Borrower and Property comply with this Section.

 Requirements

For Expanded Housing Choice pricing incentive eligibility, all of the following must be met:

- The Borrower agrees to:
  - accept Housing Choice Vouchers throughout the Mortgage Loan term;
  - not discriminate against applicants, tenants, their family members, and
occupants for using Housing Choice Vouchers to pay rent and other lawful fees, including

- applying stricter screening standards,
- charging larger security deposits, rent, or fees, or
- subjecting them to additional community rules;

- advertise the Property and/or available units
  - with participating Public Housing Agencies, and
  - on https://www.affordablehousing.com (or successor site); and

- execute a
  - Modification to Multifamily Loan and Security Agreement (Expanded Housing Choice) (Form 6273), and
  - Payment Guaranty (Pricing Incentive Recapture) (Form 6020.PIR).

The Property:

- is located in
  - Texas, or
  - North Carolina;

- is not already required to accept Housing Choice Vouchers as a financing condition, such as per
  - an Affordable Regulatory Agreement,
  - Sponsor-Initiated Affordability Agreement, or
  - LIHTC agreement; and

- on the Mortgage Loan Origination Date, has at least 20% of its units within the applicable HUD Fair Market Rent or Small Area Fair Market Rent, as adjusted per the applicable Public Housing Agency payment standard, with the qualifying unit mix being in proportion to the Property's overall unit mix.

Operating Procedures

Use the Housing Choice Vouchers: Expanded Housing Choice (EHC) Job Aid to commit and Deliver a Mortgage Loan qualifying for an Expanded Housing Choice pricing incentive.
Guidance

For an acceptable unit mix within the applicable HUD Fair Market Rent or Small Area Fair Market Rent, the qualifying units must be proportional to the Property's overall unit mix. An acceptable unit mix at a sample 100-unit building would be:

<table>
<thead>
<tr>
<th>Apartment Type</th>
<th>Number of Units</th>
<th>Minimum 20% Unit Mix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studio</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>1 Bedroom</td>
<td>50</td>
<td>10</td>
</tr>
<tr>
<td>2 Bedroom</td>
<td>30</td>
<td>6</td>
</tr>
<tr>
<td>3 Bedroom</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>20</td>
</tr>
</tbody>
</table>

Section 102

Multiple Properties

102.01 Single Borrower Ownership

Requirements

If more than 1 Property secures a Mortgage Loan, you must determine if all multifamily buildings are part of the same Project. Buildings on multiple Properties are a single Project if all Properties:

- are only separated by publicly dedicated or private streets primarily intended for local residents or access to the Property, and not by major arteries or thoroughfares (i.e., streets primarily intended for traffic traveling through the area); and

- have the following characteristics:
  - all buildings have been operated as a single complex (e.g., no buildings are marketed separately to tenants);
  - the Properties are within
    - 0.5 miles or less of each other, and
    - the same submarket;
  - amenities at any building are available to tenants in other buildings;
  - amenities located in one building do not materially, adversely affect the rents at other buildings without similar amenities; and
the overall building configuration across the Properties does not result in elevated vacancy levels at any building.

If multiple Properties are not part of the same Project, you must:

- collect detailed individual data for each Property, including separate
  - rent rolls, and
  - operating statements;
- enter each Property in the “Properties” section of DUS Gateway;
- complete a Multifamily Affordability Estimator (MAE) for each Property per Part I, Chapter 2: Mortgage Loan, Section 201: Registration and Multifamily Affordability Estimator;
- require every third-party report to assess
  - the Properties in each Project separately, and
  - all Properties in the aggregate; and
- enter each Property as a separate Property Collateral record in C&D.

When a Mortgage Loan not in a Credit Facility is secured by multiple Properties (whether in the same or multiple Projects), each multifamily Property must individually:

- comply with the minimum occupancy requirements in
  - Part II, Chapter 1: Attributes and Characteristics, Section 105: Minimum Occupancy, or
  - Part III, Chapter 9: Small Mortgage Loans, Section 903: Occupancy;
- be located in the same MSA; and
- have an acceptable Property condition based on
  - your site inspection, and
  - any required PCA.

Guidance

For a Mortgage Loan secured by multiple Properties not part of the same Project, you may:

- accept a consolidated third-party report for multiple Projects, if each
Property is identified and assessed separately; and
- consolidate the Underwritten NCF and overall underwriting in a single Transaction Approval Memo.

### 102.02 Joint and Several Borrower Ownership

<table>
<thead>
<tr>
<th>If...</th>
<th>Then...</th>
</tr>
</thead>
</table>
| A Mortgage Loan
  • is made to joint and several Borrowers,
  • is secured by multiple Properties, and
  • has a Property owned by a different Borrower. | The Mortgage Loan and each Borrower must comply with
  • Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302.01: Single-Asset Entity,
  • Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302.03: Joint and Several Borrowers with Multiple Properties, and
  • Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership. |

---

### Section 103 Property Ownership; Leasehold

- Requirements

You must ensure that the Property is owned in fee simple, unless the Property is held under an acceptable Leasehold estate.

---

### Section 104 Ground Leased Properties

#### 104.01 Generally

- Requirements

If the Property has a Ground Lease, the Mortgage Loan collateral must include a Lien on the Leasehold estate.

You must ensure that the Ground Lease complies with the Ground Lease Review Checklist (Form 6479), unless

- the ground lessor joins with the Borrower in executing the Security Instrument and grants a Lien on the ground lessor's fee estate, or
the absence of the Leasehold estate would not have a material adverse effect on the Property’s operation or value.

104.02 Ground Lease Rents

☑️ Requirements

You must:

- establish an escrow for ground rents;
- ensure the Borrower deposits sufficient funds; and
- make all payments due per the Ground Lease.

104.03 Ground Lease Estoppel Certificate

☑️ Requirements

You must obtain an executed Ground Lessor Estoppel Certificate (Form 6495).

104.04 Ground Lease Review

☑️ Requirements

You must:

- review and analyze the Ground Lease to ensure compliance with the requirements of this Section; and
- retain the completed Form 6479 in your Servicing File.

Section 105 Minimum Occupancy

105.01 Residential Occupancy

☑️ Requirements

You must ensure the Property meets these minimum occupancy levels:

- 85% physical occupancy; and
- 70% economic occupancy.

These minimum levels apply on the Commitment Date and for the preceding 3-month period.
**105.02 Qualified Occupants**

**Requirements**

When calculating physical occupancy, you must only include tenants who

- physically occupy the unit, and
- have commenced paying rent.

**Guidance**

You may include any tenant who:

- was under a standard lease for at least 6 months, then converted to a month-to-month lease when the lease expired; or
- is under a lease with a term of less than 6 months, if shorter-term leases are commonly accepted in the market area, and do not reflect weakness in the market.

You may include non-revenue producing units such as

- management units,
- employee occupied units,
- maintenance units, and
- model units.

Such units should not exceed what is usual and customary for stabilized properties in the market.

---

**Section 106 Certificates of Occupancy**

**Requirements**

<table>
<thead>
<tr>
<th>Certificates of Occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>For any...</strong></td>
</tr>
</tbody>
</table>
| Property with construction or rehabilitation work completed within the last 12 months | • Ensure all units have a certificate of occupancy.  
  • Obtain copies of all certificates of occupancy from the Borrower.  
  • Retain them in your Servicing File. |
# Certificates of Occupancy

| Other Property | • Determine if each unit had a certificate of occupancy at some point.  
|                | • Attempt to obtain copies of them.  
|                | • Retain them in your Servicing File. |

## Guidance

<table>
<thead>
<tr>
<th>No Certificate of Occupancy</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>If you cannot obtain...</td>
<td>You should...</td>
</tr>
</tbody>
</table>
| Copies of certificates of occupancy for a Property (for example, because of the Property's age, or the records of the jurisdiction where the Property is located) | • Exclude the income generated by any units without a certificate of occupancy, but include all expenses (including replacement reserves) for the maintenance of these units.  
|                               | • Look for other evidence that certificates of occupancy had been issued. |
| Copies or other sufficient evidence of a certificate of occupancy | Analyze the risk to the Property if one had never been issued, by considering if:  
|                                                             | • your physical inspection reveals any life safety issues;  
|                                                             | • all units are accessible through normal access routes (and not, for example, through a former janitorial closet);  
|                                                             | • the insurance excludes coverage of a casualty originating from a unit without a certificate of occupancy; and  
|                                                             | • the Property is located in a market that exhibits low vacancies and barriers to entry. |

## Section 107 Phased Properties

### Requirements

If the Property is a Phased Property, you must evaluate

- how the Property will be affected by other phases, and  
- if the Property can succeed independently from other phases.
Guidance

In determining if a Phased Property is viable as a separate Property, you should consider if:

- its ownership and operation are separate from all other phases of the complex;
- the Borrower is able to provide a separate leasing office;
- your underwriting has discounted any benefits derived from staff or facilities shared with other phases;
- the records and accounts used to underwrite the Property are separate from those of other phases;
- any cross-easements for the complex will survive an adverse action against another phase;
- any development of a future phase could materially interfere with or disturb the Property’s
  - occupancy,
  - marketability,
  - or living environment; and
- the Property is:
  - marketable to tenants or a new owner, separately from other phases;
  - visible to the public without passing through another phase of the complex; and
  - accessible from a public roadway.

In assessing the impact of future phases on a Property, you should consider:

- the short-term impact of construction activity; and
- long-term implications for the continued economic viability of the Property, taking into account the allocation of costs for shared facilities (such as roadways).

Requirements

You may only Deliver a Mortgage Loan on a Phased Property if Fannie Mae holds all other Mortgage Loans secured by other phases of the complex.

When the Phased Property is owned or Controlled by the same Borrower or Principals as the other phases in the complex:

- all Fannie Mae Mortgage Loans on each phase must be cross-defaulted
and cross-collateralized;

- when any new Phased Property Mortgage Loan is underwritten, the actual amortizing DSCR (per Form 4254.DEF) and current LTV for all existing Mortgage Loans on each phase must comply with Form 4660 for the same loan term, product, and Pricing and Underwriting Tier, where each property value is determined by
  - dividing the current NCF by the capitalization rate (i.e., a Direct Cap with Sales Comparables analysis),
  - broker's opinion of value, or
  - most recent Appraisal; and

- the new Phased Property Mortgage Loan must have a Prepayment Premium Period End Date on or before the Prepayment Premium Period End Date of the Mortgage Loans on the other phases.

 Guidance

If a future phase is expected, consider issuing the first phase MBS with a potential future cross.

### Section 108

#### 108.01 Eligibility

**Requirements**

This section does not apply to

- Condominium Properties, and
- Cooperative Properties.

| Shared Use Property Delivery Eligibility for Essential Elements Not Located on the Property |
|---|---|
| **Topic** | A Shared Use Property Mortgage Loan is eligible for Delivery if... |
| Documents | you determine the Shared Use Documents do not explicitly prohibit the Essential Elements from being rebuilt or repaired after any casualty or condemnation. |
### Shared Use Property Delivery Eligibility for Essential Elements Not Located on the Property

<table>
<thead>
<tr>
<th>Property</th>
<th>the Property benefits from Essential Elements per Shared Use Documents that:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• are perpetual;</td>
</tr>
<tr>
<td></td>
<td>• inure to the benefit of future Property owners;</td>
</tr>
<tr>
<td></td>
<td>• are recorded in the land records; and</td>
</tr>
<tr>
<td></td>
<td>• if applicable, are insured as beneficial easements under the lenders title policy.</td>
</tr>
</tbody>
</table>

### Split Ownership of Units and Essential Elements

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>when the Borrower owns all units subject to the Shared Use Documents, and an Affiliate of the Borrower or Key Principal directly or indirectly owns the Essential Elements that benefit only the Property, such Affiliate joins the:</td>
<td>Loan Documents as a joint and several Borrower; or Security Instrument using the Modification to Security Instrument ( Joinder and Consent (Affiliate Owned Common Elements ) ) (Form 6324).</td>
</tr>
</tbody>
</table>

### Shared Use Property Delivery Eligibility for All Essential Elements

<table>
<thead>
<tr>
<th>Topic</th>
<th>A Shared Use Property Mortgage Loan is eligible for Delivery if...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>all:</td>
</tr>
<tr>
<td></td>
<td>• Property and Essential Elements expenses and charges payable per the Shared Use Documents are current;</td>
</tr>
<tr>
<td></td>
<td>• assessments and payments payable per the Shared Use Documents are current; and</td>
</tr>
<tr>
<td></td>
<td>• to the extent permitted by law, future assessments owed by the Borrower and associated liens, if any, are subordinate to the Mortgage Loan.</td>
</tr>
</tbody>
</table>
Shared Use Property Delivery Eligibility for All Essential Elements

Borrower Status

the Borrower:

• has no outstanding community violations; and
• is not involved in a community dispute that may
  - result in litigation, or
  - materially adversely impact the Property.

108.02 Documents

108.02A Loan Documents

☑ Requirements

You must:

- ensure the Borrower executes the Modification to Multifamily Loan and Security Agreement Shared Use of Essential Elements (Form 6276); and
- if appropriate per the conditions described in the Estoppel Certificate attached to Form 6276, use reasonable efforts to obtain from the association or other appropriate party:
  - the Estoppel Certificate attached to Form 6276; or
  - other form providing similar representations.

108.02B Shared Use Documents

☑ Requirements

You must:

- evaluate the Shared Use Documents;
- document your evaluation in the Transaction Approval Memo; and
- obtain:
  - an ALTA title policy per Part II, Chapter 3: Legal Compliance, Section 304: Title Insurance; and
  - ALTA Endorsements (i.e., 5-06, 28-06, and 9-06) if available in the Property’s jurisdiction.
### Shared Use Document Evaluation

<table>
<thead>
<tr>
<th>Topic</th>
<th>You should review the Shared Use Documents to evaluate...</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ownership and Control</strong></td>
<td>• if the Borrower owns all Improvements and the underlying land;</td>
</tr>
<tr>
<td></td>
<td>• if Essential Elements not located on the Property exist, and if ownership is:</td>
</tr>
<tr>
<td></td>
<td>- directly or indirectly by an Affiliate of the Borrower or Key Principal;</td>
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<td></td>
<td>- by a separate association or governing body;</td>
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<tr>
<td></td>
<td>- by another community owner or an adjacent property owner; or</td>
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<td></td>
<td>- shared by the community owners; and</td>
</tr>
<tr>
<td></td>
<td>• how association and Essential Elements decisions are made by any</td>
</tr>
<tr>
<td></td>
<td>- developer,</td>
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<tr>
<td></td>
<td>- declarant,</td>
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<tr>
<td></td>
<td>- association,</td>
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<tr>
<td></td>
<td>- community owner, or</td>
</tr>
<tr>
<td></td>
<td>- other governing body.</td>
</tr>
<tr>
<td><strong>Responsibilities and Enforcement</strong></td>
<td>how an association or governing body:</td>
</tr>
<tr>
<td></td>
<td>• collects fees and assessments;</td>
</tr>
<tr>
<td></td>
<td>• maintains Essential Elements;</td>
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<tr>
<td></td>
<td>• obtains insurance;</td>
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<td></td>
<td>• mediates disputes; and</td>
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<td></td>
<td>• enforces covenants, including</td>
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<td></td>
<td>- levying fines or interest, or</td>
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<td></td>
<td>- pursuing liens or foreclosure.</td>
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<tr>
<td><strong>Fees</strong></td>
<td>the assessment fee structure, including</td>
</tr>
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<td></td>
<td>• escalation provisions,</td>
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<tr>
<td></td>
<td>• special assessments, and</td>
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<td></td>
<td>• if assessments should be escrowed.</td>
</tr>
<tr>
<td>Shared Use Document Evaluation</td>
<td></td>
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<td>-------------------------------</td>
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</tr>
<tr>
<td><strong>Budget</strong></td>
<td>the association's current</td>
</tr>
<tr>
<td></td>
<td>• annual budget,</td>
</tr>
<tr>
<td></td>
<td>• income/expense statements, and</td>
</tr>
<tr>
<td></td>
<td>• reserve accounts.</td>
</tr>
<tr>
<td><strong>Mandates</strong></td>
<td>how the association dictates:</td>
</tr>
<tr>
<td></td>
<td>• operations;</td>
</tr>
<tr>
<td></td>
<td>• physical appearance;</td>
</tr>
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<td></td>
<td>• insurance claim proceeds;</td>
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<td>• other restrictions, including limitations or</td>
</tr>
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<td></td>
<td>modifications for using the Essential Elements; and</td>
</tr>
<tr>
<td></td>
<td>• if the cost and maintenance of the Essential</td>
</tr>
<tr>
<td></td>
<td>Elements located on the Property are not overly</td>
</tr>
<tr>
<td></td>
<td>burdensome.</td>
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<tr>
<td><strong>Insurance</strong></td>
<td>the association's coverage for:</td>
</tr>
<tr>
<td></td>
<td>• property, including if the Essential Elements not</td>
</tr>
<tr>
<td></td>
<td>located on the Property must be rebuilt or repaired</td>
</tr>
<tr>
<td></td>
<td>after any casualty or condemnation;</td>
</tr>
<tr>
<td></td>
<td>• liability; and</td>
</tr>
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<td></td>
<td>• directors and officers.</td>
</tr>
</tbody>
</table>

**Section 109** Commercial Leases

**Requirements**

You must only underwrite actual income from occupied commercial space with an executed lease or lease extension agreement, if:

- the remaining lease term is at least 12 months after the Mortgage Loan Origination Date;
- the tenant is
  - paying rent, and
  - not delinquent on rent due outside the lease’s cure period; and
- the underwritten commercial income includes the actual commercial rent due under the lease within 12 months after the Mortgage Loan Origination Date, including any
discounts, or
concessions.

**Guidance**

Your evaluation of any commercial space's viability should include:

- Appraisal sub-market comparable commercial space rents supporting the underwritten rents;
- sub-market data confirming a low commercial space vacancy rate;
- existing sustainable demand for the tenant’s business type; and
- evidence that the Property's location has sufficient foot traffic to support the tenant's business.

### 109.01 Material Commercial Leases

#### 109.01A Lease Review

**Requirements**

You must analyze all aspects of each Material Commercial Lease and its tenants, grantees, or other beneficiaries.

If Material Commercial Lease approval is required per Part II, Chapter 1: Attributes and Characteristics, Section 109.01B: Lease Approval you must:

- prepare a written summary of the material terms of the Material Commercial Lease; and
- keep a copy of your summary in your Servicing File.

**Guidance**

As you analyze the Material Commercial Lease, you should consider if:

- each tenant has the ability to fulfill its financial and other performance obligations under the Material Commercial Lease;
- the Material Commercial Lease insurance provisions are consistent with the insurance requirements in the applicable Loan Documents or
otherwise prescribed by Fannie Mae;

■ each tenant is required to obtain the Lender's consent before the Material Commercial Lease is
  ■ assigned,
  ■ subleased,
  ■ subcontracted, or
  ■ otherwise transferred; and

■ the tenant
  ■ has early termination clauses, and
  ■ understands the conditions under which they can terminate, including
    ■ a material casualty or condemnation, or
    ■ if the landlord cannot substantially restore the premises in a reasonable period of time following a casualty or condemnation.

109.01B Lease Approval

✅ Requirements

<table>
<thead>
<tr>
<th>Material Commercial Lease Type</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease with Property Assessed Clean Energy (PACE) Financing</td>
<td>You must not approve any Material Commercial Lease that includes PACE financing.</td>
</tr>
<tr>
<td>Renewable Energy Generation Lease</td>
<td>You must only approve leases for renewable energy systems that comply with Part II, Chapter 1: Attributes and Characteristics, Section 110: Renewable Energy Generation Systems.</td>
</tr>
<tr>
<td>Other Material Commercial Leases</td>
<td>You must only approve other Material Commercial Leases that comply with Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases.</td>
</tr>
</tbody>
</table>

109.01C Lease Modifications

✅ Requirements

As you review each Material Commercial Lease modification, you must
consider if it:

- violates any of the requirements of this Section;
- contains terms that are inconsistent with the Mortgage Loan; or
- presents risks that are inappropriate for the Mortgage Loan.

If any of these conditions are present you must:

- require the Borrower to modify the Material Commercial Lease appropriately; or
- address the items in the Tenant Estoppel Certificate (Form 6413) and/or the Subordination, Non-Disturbance, and Attornment Agreement (Form 6415).

109.01D Tenant Estoppel Certificate

☑ Requirements

You must obtain a Tenant Estoppel Certificate (Form 6413) for each Material Commercial Lease.

109.01E Subordination, Non-Disturbance and Attornment

☑ Requirements

You must use Form 6415 if:

- the Material Commercial Lease contains provisions for the Borrower to assume liability or other risks as landlord that would be unacceptable to the Lender in case of a Foreclosure Event; or
- the form
  - is necessary for subordination and attornment, or
  - would otherwise be beneficial.

You must ensure that each Material Commercial Lease (including any renewal or extension):

- is subordinate to the Lien of the Security Instrument; and
- requires the tenant to attorn to the Lender under the Mortgage Loan.

109.02 Non-Material Commercial Leases
109.02A  Tenant Estoppel Certificate; Lease Modification

☑️ Requirements

You must make reasonable efforts to get a Form 6413 for each non-Material Commercial Lease, other than leases relating only to equipment or maintenance services.

If a non-Material Commercial Lease has terms that are inconsistent with the terms of the Mortgage Loan or present inappropriate risks for the Mortgage Loan, then you must:

- require the Borrower to modify the lease appropriately; or
- address any inconsistencies or risks in a Form 6413.

109.02B  Non-Material Commercial Lease Types

☑️ Requirements

<table>
<thead>
<tr>
<th>Non-Material Commercial Lease Type</th>
<th>You must review any telecommunications and cell tower lease to ensure it does not:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecommunications and Cell Tower Leases</td>
<td>• comprise more than 5% of the Property's Effective Gross Income;</td>
</tr>
<tr>
<td></td>
<td>• negatively impact the Property's - value, - visibility, - livability, or - marketability;</td>
</tr>
<tr>
<td></td>
<td>• impose an undue financial or operating burden on the Property or the Borrower;</td>
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<tr>
<td></td>
<td>• obligate the Borrower to rebuild any Improvements at the Property post-casualty or condemnation;</td>
</tr>
<tr>
<td></td>
<td>• have a lease term (including extension options) in excess of 25 years;</td>
</tr>
<tr>
<td></td>
<td>• contain a purchase option; or</td>
</tr>
<tr>
<td></td>
<td>• convey any right to the tenant other than simple lessee rights (e.g., a perpetual easement, a purported sale of a portion of the Improvements, unjustified exclusivity, etc.).</td>
</tr>
<tr>
<td>Non-Material Commercial Lease Type</td>
<td></td>
</tr>
<tr>
<td>-----------------------------------</td>
<td></td>
</tr>
<tr>
<td>Communications Service Agreement</td>
<td></td>
</tr>
</tbody>
</table>

You do not need to subordinate the service agreement to the Lien of the Security Instrument if:

- the Borrower certifies to you that neither the Borrower, nor any Key Principal or Principal, is an Affiliate of the communications service provider; and
- the lease does not contain provisions for the Borrower to assume liabilities and risks as landlord that would not be acceptable for you (as lender under the Mortgage Loan) in the context of a Foreclosure Event.

If a communications service agreement is accompanied by a lease or easement, then the lease or easement must end automatically when the service agreement expires, unless the service agreement is subordinated to the Lien of the Security Instrument.
## Non-Material Commercial Lease Type

<table>
<thead>
<tr>
<th>Mineral Rights; Oil and Natural Gas Leases</th>
<th>You must review each agreement or lease of mineral rights or rights relating to subsurface oil and natural gas to ensure that it does not:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• comprise more than 5% of the Property's Effective Gross Income;</td>
</tr>
<tr>
<td></td>
<td>• grant surface entry for any purpose (e.g., pipes, access across, or storage on the Property);</td>
</tr>
<tr>
<td></td>
<td>• grant subsurface rights within - 250 feet below the surface of the Property, or - 600 feet from any Property boundary line;</td>
</tr>
<tr>
<td></td>
<td>• have a material adverse effect on - public health and safety, - air quality or noise levels, or - the Property's marketability or occupancy;</td>
</tr>
<tr>
<td></td>
<td>• permit oil or gas well activities with potential negative effects on the Property's - access, - visibility, or - storm water drainage;</td>
</tr>
<tr>
<td></td>
<td>• have a negative effect on the Property's - zoning, or - allowable density;</td>
</tr>
<tr>
<td></td>
<td>• facilitate drilling, storage, or processing of oil or gas on the Property or any adjacent property; or • fail to require the lessee to indemnify and hold harmless the Borrower, as lessor, for any damage to the Property or any other damage or liability caused directly or indirectly as a result of the oil and gas exploration or drilling activities.</td>
</tr>
</tbody>
</table>

The Borrower must execute Form 6262 if a lease or deed reservation of rights allows for the subsurface exploration of oil, natural gas, or minerals, but no evidence of active or planned exploration or drilling exists on the Property.
Non-Material Commercial Lease Type

<table>
<thead>
<tr>
<th>Lease Type</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Laundry Lease</td>
<td>You do not need to subordinate the lease to the Lien of the Security Instrument if you confirm</td>
</tr>
<tr>
<td></td>
<td>that the lease:</td>
</tr>
<tr>
<td></td>
<td>• is not with an Affiliate of the Borrower or any Key Principal or Principal;</td>
</tr>
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<td></td>
<td>• has market terms;</td>
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<td></td>
<td>• contains an acceptable termination for cause provision; and</td>
</tr>
<tr>
<td></td>
<td>• meets recognized industry standards.</td>
</tr>
<tr>
<td>Equipment or Related Maintenance Services Lease</td>
<td>You must ensure that the lease:</td>
</tr>
<tr>
<td></td>
<td>• is subordinate to the Security Instrument;</td>
</tr>
<tr>
<td></td>
<td>• contains an acceptable termination for cause provision; and</td>
</tr>
<tr>
<td></td>
<td>• meets recognized industry standards.</td>
</tr>
</tbody>
</table>

Guidance

Non-Material Commercial Lease Type

<table>
<thead>
<tr>
<th>Lease Type</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Storage Unit Lease</td>
<td>You do not need to subordinate the lease to the Lien of the Security Instrument if you determine</td>
</tr>
<tr>
<td></td>
<td>the unit is being leased pursuant to a residential Lease.</td>
</tr>
</tbody>
</table>

109.03 Short Term Rentals

Requirements

You must ensure that:

- the residential nature of any Property with units available for STR is maintained, even though any Lease of an STR unit will be
  - classified as a commercial lease, and
  - subject to the space and income limitations per Form 4660;
- no more than 5% of the Property’s units (not counting recreational vehicle sites) are available for STR; and
- the Underwritten NCF accurately incorporates all STR income.

You must include the following information in your underwriting analysis:
Borrower's strategy for implementing STR;
a description of the STR arrangement;
length of time the STR has been in place;
Borrower's action plan for handling liability issues for
  - STR tenants at the Property, and
  - safety concerns for non-STR tenants;
if the STR units are furnished or unfurnished; and
confirmation that the
  - STR is legally permissible and in compliance with applicable laws and zoning,
  - Borrower's or master tenant's insurance covers any STR, and
  - Property is residential in nature (i.e., not operated as a hotel or other single room occupancy arrangement).

**Guidance**

Examples of an STR arrangement include an arrangement between the Borrower and:

- a tenant/master tenant, where the tenant/master tenant has an agreement with an STR provider or platform (such as Airbnb, VRBO®, etc.); or
- an STR provider or platform, where the Borrower's tenants may make their units available for STR.

You should seek to establish a leasing history of at least 12 months for any STR unit.

**Section 110**  
**Renewable Energy Generation Systems**

<table>
<thead>
<tr>
<th>110.01 Acceptable Renewable Energy Generation Systems</th>
</tr>
</thead>
</table>

- **Requirements**

Any operational renewable energy generation system benefitting the Property or the Borrower must be:

- located on the Property;
- comprised of a Solar PV System;
Borrower-owned; and
installed, or installation will begin, on or before the Mortgage Loan Origination Date.

### 110.02 Solar Photovoltaic Systems

#### Requirements

For any Property with an acceptable Solar PV System, you must ensure:

- All equipment, including energy storage, is located on the Property and owned by the Borrower.
- The Borrower has all required permits, licenses, and certificates to comply with all utility tariffs and laws governing the
  - generation,
  - storage,
  - transmission, and
  - distribution of electricity.
- The Property will remain connected to the utility grid even if the Solar PV System output is sufficient for all of the Property's energy needs.
- The Borrower will not be characterized or regulated as a public utility.
- Any power generated from the Solar PV System that is not consumed or stored on-site is only sold to the local utility, not to any other third party.
- Any battery storage system is designed only for on-site uses (e.g., peak shaving), and the Borrower has not arranged for ancillary services with any utility or third party.
- The Borrower executes Modifications to Multifamily Loan and Security Agreement (Mortgage Loan with installed Solar Photovoltaic System) (Form 6270).

#### Guidance

You should engage legal counsel with solar photovoltaic system experience and state-specific knowledge to review all applicable local laws, contracts, and agreements regarding the Solar PV System installation and operation, including:

- the interconnection agreement with local distribution company or utility;
- any net metering agreements;
engineering, procurement, and construction contracts or agreements;

- any Operating and Maintenance Agreements;

- notice of Permission to Operate (or similar document) provided by local distribution company or utility;

- any supplemental financing or financing incentives (e.g., grants, tax credits, etc.) used by the Borrower to finance the Solar PV System to determine if any competing liens or other restrictions might result;

- any leases or contractual arrangements, such as agreements for
  - renewable energy certificates,
  - solar renewable energy certificates, or
  - purchasing power; and

- confirming that Borrower will not be deemed a public utility.

110.03 Solar PV System Module

- Requirements

The PCA must include an evaluation of the Solar PV System equipment and roofs/structures where the equipment is mounted per the Solar PV Module of Form 4099.

110.04 Underwritten NCF

- Requirements

When calculating Underwritten NCF:

- do not include any income derived from the Solar PV System, except for tenant utility reimbursement;

- any utility reimbursement income must
  - not exceed the trailing 12-month period, and
  - consider any decrease from the lower utility expense;

- utility expense must be supported by the trailing 12-month operating history; and

- include all additional Solar PV System operating expenses such as:
  - operating and maintenance contract fees;
  - fixed utility fees;
• incremental real estate taxes;
• insurance coverage; and
• Replacement Reserves for equipment replacement and/or system removal and reinstallation upon roof replacement.

Section 111  Oil/Gas Wells and Mineral Exploration

### 111.01 Active Oil and Gas Wells

- **Requirements**

  You must ensure the Property has no evidence of any surface entry related to active mineral, oil, or gas activities.

  For Properties with mineral, oil, or gas exploration on an adjacent property, you must:

  - Identify whether the exploration is active or inactive.
  - Deliver a Phase I ESA for the Property reporting no Recognized Environmental Conditions.
  - Confirm all mineral, oil, or gas:
    - equipment is located more than 600 feet from any Property boundary line; and
    - exploration on the adjacent property does not impact the health or safety of the Property's tenants or have a material adverse impact to its marketability.
  - Confirm:
    - the adjacent property is not owned by an Affiliate of the Borrower; and
    - either:
      - no history of spills or leaks exists; or
      - if spills or leaks have occurred, all applicable permits are in place.

- **Guidance**

  Evidence of active mineral, oil, or gas activities on the Property may include:

  - wells associated with production, exploration, or extraction;
  - active storage or processing; or
Inactive Oil and Gas Wells

**Requirements**

You must ensure the Property has no evidence of inactive mineral, oil, or gas equipment, unless:

- the Property's Phase I ESA is acceptable;
- if the Property is subject to an oil and gas lease, the lease complies with Part II, Chapter 1: Attributes and Characteristics, Section 109.02B: Non-Material Commercial Lease Types; and
- for a refinance, all mineral, oil, or gas equipment has been removed, capped, and closed per regulatory requirements before closing, and you have a permit or closure letter from the governing authority; or
- for an acquisition, you:
  - require the mineral, oil, or gas equipment/wells to be removed, capped, and closed per regulatory requirements within 180 days after the Mortgage Loan closing;
  - escrow the applicable cost to remove equipment, close wells, and remediate the site per regulatory requirements;
  - receive a permit or closure letter from the governing authority; and
  - modify the Environmental Indemnity Agreement as required by Fannie Mae.

Property Management and Agreement

**Property Management**

**Requirements**

You must ensure the Property's management team is adequate.

**Guidance**

An independent, professional Property management company is not required. However, when analyzing Property management, you should consider if the management team:

- has adequate experience to ensure effective Property
administration,
leasing,
marketing, and
maintenance; and

is staffed appropriately for the
Property type and size, and
services provided.

112.02 Property Management Agreement

Requirements

If the Borrower is not the Property manager, you must ensure the:

- Borrower has a written management agreement with a Property management company allowing Lender cancellation without penalty or prior notice in case of a Borrower default per the Loan Documents; or
- Borrower and Property manager complete the Assignment of Management Agreement (Form 6405).

Guidance

You should ensure the Property management agreement clearly states the

- Property manager's responsibilities, and
- amount of the management fee (or fee determination methodology).
Chapter 2  Valuation and Income

Section 201  Market and Valuation

201.01  Market Analysis

☑ Requirements

You must:

- Evaluate the Property's market area, identifying its strengths and weaknesses.
- Take these characteristics into account when structuring the Mortgage Loan.

201.02  Appraisal

☑ Requirements

You must:

- obtain an Appraisal that:
  - is prepared by a qualified, state-licensed or -certified appraiser;
  - conforms to the requirements in the USPAP; and
  - meets any governmental regulations in effect when the Mortgage Loan was originated, including the Financial Institutions Reform, Recovery, and Enforcement Act of 1989; and
- ensure all:
  - Potential Red Flags for Mortgage Fraud and Other Suspicious Activity were considered; and
  - unresolved red flags were reported per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance.

201.02A  Appraiser Role and Qualifications

☑ Requirements

You must:

- Provide the appraiser all documents needed to accurately assess
Property's value.

- Ensure the appraiser:
  - completely and accurately describes the Property and the market;
  - provides an opinion of the Property's market value, supported by
    - market data,
    - logical analysis, and
    - sound professional judgment; and
  - uses an industry standard form of Appraisal that is appropriate for the size and structure of the Mortgage Loan.

When selecting an appraiser, you must document that the appraiser is licensed or certified, as appropriate, per applicable state law.

When using an appraiser, you must ensure the appraiser (whether third-party or in-house):

- acts independently;
- does not participate in the Mortgage Loan approval; and
- is not a member of the loan origination or underwriting staff.

### 201.02B Valuation Date

**Requirements**

You must:

- update any Appraisal if the Appraisal Date is more than 6 months before the Commitment Date; and
- require a new Appraisal if the Appraisal Date is more than 12 months before the Commitment Date.

**Guidance**

For an Appraisal dated less than 12 months before the Commitment Date, you may obtain an updated Appraisal that complies with USPAP guidelines, dated within 6 months of the Commitment Date.

### 201.02C Appraised Value

**Requirements**
You must ensure the appraiser provides an opinion of the market value, on an “as is” basis, of:

- each separate Project per Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership; and
- the aggregate market value of all Projects.

You may also request the appraiser provide an opinion of the Property’s market value on an “as completed” basis, but you must only use an “as completed” Appraisal for the opinion of Appraised Value if all of the following conditions apply:

- less than 12 months have passed between the Borrower’s acquisition of the Property and the Commitment Date;
- for any capital improvements made after the Mortgage Loan Origination Date to be considered in an “as completed” Appraisal, they must be:
  - Immediate Repairs listed in the PCA; or
  - improvements identified by the Borrower, if you agree the improvements will add Property value;
- all capital improvements are included in either the
  - Completion/Repair Schedule, or
  - Rehabilitation Reserve Agreement;
- sufficient funds to complete all capital improvements are deposited into either the Completion/Repair Escrow or the Rehabilitation Reserve Account:
  - for capital improvements identified as Immediate Repairs, the funds must cover any higher funding percentage you require; and
  - for capital improvements identified by the Borrower, the funds must cover the estimated cost (including an allowance for cost overruns); and
- all capital improvements are required to be completed in a timely manner:
  - those identified by the Borrower must be completed within 12 months after the Mortgage Loan Origination Date; and
  - for others identified as Immediate Repairs, a shorter time period may be required by Part II, Chapter 4: Inspections and Reserves, Section 403: Completion/Repairs.

201.03 Underwriting Value
Requirements

Your Underwriting Value must not exceed the Appraised Value, as reduced by any adjustments you deem necessary accounting for Property deficiencies that cannot be cured within 6 months after the Appraisal Date.

If less than 12 months have passed between the Borrower's acquisition of the Property and the Commitment Date, your Underwriting Value must not exceed the lower of the

- Appraised Value, or
- sum of the:
  - Property's acquisition price per the title company settlement statement;
  - cost of capital improvements or repairs that increase the Property's value, if
    - completed and fully paid, or
    - sufficient funds for completion are deposited in the Completion/Repair Escrow or reserve account; and
  - actual acquisition costs, not exceeding 3% of the acquisition price, including:
    - Origination Fee;
    - arm's length acquisition fee (generally 1% - 2%) paid to an unrelated Person if documented in the Settlement Statement;
    - third-party report fees;
    - Borrower-paid legal fees incurred on your behalf;
    - title search and title insurance fees;
    - survey fees;
    - real estate and stamp taxes;
    - deed-recording fees; and
    - credit report charges.

Guidance

Actual acquisition costs should exclude any prepaid operating expenses or deposits applied toward future operating expenses or Property improvements, including:

- prepaid or escrowed
real estate taxes, or
insurance premiums;

prepaid
utilities,
Mortgage Loan interest, including any interest rate buydown expense,
rents, or
security deposits;

funded
Completion/Repair Escrow,
Replacement Reserve,
Interest Rate Cap cost,
operating or Restabilization Reserve, or
Borrower-controlled Property operating or capital accounts;

fees included in the Gross Note Rate, including any
Origination Fee, or
broker fee;

acquisition fees paid to a Borrower-Affiliate; and
for an MAH Property, pre-paid Bond-related and compliance monitoring fees.

Section 202 Income Analysis

202.01 Underwritten Net Cash Flow (Underwritten NCF)

Guidance

Underwritten NCF may
differ significantly across assets, and
will be driven by particular Property circumstances.

Therefore, when calculating the Property's Underwritten NCF, you should:

Use objective measures to determine the revenue generated and the expenses incurred.
Use the best information available, including historical performance and anticipated operations.

Use best efforts to obtain operating statements for the prior 3 years.

Obtain the prior full-year operating statement or, at a minimum, one covering the trailing 6 months (annualized).

Consider if the Property can achieve the Underwritten NCF within 12 months after the Mortgage Loan Origination Date, absent unexpected market conditions or other unforeseen events.

You may:

Rely, for acquisitions only, on the Borrower's budgeted operating statements.

Calculate the Underwritten NCF more conservatively, if warranted by particular Property circumstances.

Requirements

You must use the following table to calculate Underwritten NCF for all Mortgage Loans unless another table is provided in the applicable Part III chapter based on the specific product.

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CALCULATION OF NET RENTAL INCOME</td>
<td></td>
</tr>
</tbody>
</table>
## REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 1    | Item     | **GROSS RENTAL INCOME** actual rents in place for occupied units, plus market rents for vacant units based on a current rent roll (multiplied by 12). The Property must have Stabilized Residential Occupancy by Qualified Tenants.  

If the Property is located in New York City and subject to the J-51 Tax Incentive Program where the Borrower has decontrolled rent-stabilized units (a Decontrol Event), you must adjust the current rents to reflect no rent decontrol benefits:

- Calculate the base rent as the rent amount per unit prior to the Decontrol Event date.
- Use the base rent for each applicable unit to determine the Gross Rental Income.
- Increase the base rent by the appropriate percentage allowed per New York City Rent Stabilization laws per annum through the present rent roll date. |
| 2    | PLUS     | To the extent deducted as an operating expense, rents for other non-revenue units (e.g., model units deducted in the model apartment operating expense in the general and administrative category, or actual rent from employee units deducted in the employee operating expense in the payroll and benefits category). |
|      |          | **EQUALS** GROSS POTENTIAL RENT (GPR) |
| 3    | MINUS    | Premiums (e.g., identifiable additional income from furnished units or short term leases) and/or corporate premiums (e.g., identifiable additional income from corporate units, housekeeping services, etc.). |
| 4    | MINUS    | Physical vacancy market rents for vacant units based on a current rent roll (multiplied by 12).¹ |
### REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>MINUS</td>
<td>Concessions - the aggregate amount of forgone residential rental income from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc.(^1)</td>
</tr>
<tr>
<td>6</td>
<td>MINUS</td>
<td>Bad debt - the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt.(^1)</td>
</tr>
</tbody>
</table>

**EQUALS** NET RENTAL INCOME (NRI)\(^2\)

1. The total of Items 4, 5, and 6 must equal the greater of
   - the difference between the trailing 3-month net rental collections (annualized) and GPR, or
   - 5% of GPR.

2. NRI must reflect projected operations for the underwriting period.
   
a. You must assess the NRI using these parameters and fully support any changes:
   
   - Assess the individual month NRI within the prior full-year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized).
   - If there are fluctuations, you may use an NRI that exceeds the trailing 3-month NRI, provided the NRI does not exceed the highest 1-month NRI used in the trailing 3-month NRI calculation.

b. You must assess declines in NRI using these parameters:
   
   - Assess if any decline occurred in NRI for the trailing 3-month period compared to the trailing 6-month period and the trailing 12-month period.
   - If the decline in NRI for the trailing 3-month period is greater than 2% compared to either the trailing 6-month period or the trailing 12-month period, you must adjust the NRI downward to an amount that is 2% less than the lowest NRI for the trailing 1-month, 3-month, 6-month, or 12-month period.
   - You must make a minimum 2% adjustment to NRI; however, you are expected to make additional downward adjustments as appropriate to reflect current market conditions not reflected in historical operations.

### CALCULATION OF OTHER INCOME
<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 7    | PLUS     | Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must:  
• be stable;  
• be common in the market;  
• exclude one-time extraordinary non-recurring items; and  
• be supported by prior years.  
You must assess the individual month’s other income within the prior full-year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized).  
If there are fluctuations, you may use other income that exceeds the trailing 3-month other income (annualized), provided it does not exceed the highest 1-month other income used in the trailing 3-month other income calculation.  
When determining the other income, you must  
• adjust Items 8 through 12, and  
• include specific income for Items 13 through 15 when applicable. |
<p>| 8    | PLUS     | Actual income from leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases. |
| 9    | PLUS     | Actual income from STR units. |
| 10   | MINUS    | 10% of the actual commercial space income (total of Items 8 plus 9).³ |</p>
<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>PLUS</td>
<td>Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections.³</td>
</tr>
</tbody>
</table>
| 12   | PLUS     | Premiums, provided that the income must:  
  • be stable or increasing;  
  • be typical (in type and amount) in the market;  
  • be supported by prior years; and  
  • not exceed the income generated over the most recent year or trailing 12-month period. |
| 13   | PLUS     | Corporate premiums, provided that this income must:  
  • not be included for more than 10% of the Property's units;  
  • be stable or increasing;  
  • be typical (in type and amount) in the market;  
  • be supported by prior years; and  
  • not exceed the income generated over the most recent year or trailing 12-month period. |
| 14   | PLUS     | Laundry and vending. |
| 15   | PLUS     | Parking - income from residential parking/garage spaces. |

³ If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.
### REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 16   | PLUS     | All other income, including the following:  
|      |          | - application fees;  
|      |          | - cable;  
|      |          | - club house rental;  
|      |          | - fees charged tenants for returned checks due to insufficient funds (NSF);  
|      |          | - forfeited security deposits;  
|      |          | - late fees;  
|      |          | - miscellaneous;  
|      |          | - non-refundable fees;  
|      |          | - pet fees;  
|      |          | - reimbursements;  
|      |          | - storage;  
|      |          | - temporary tenants;  
|      |          | - utility; and  
|      |          | - other.  

The following must not be included:  

- corporate tax and refunds;  
- delinquency;  
- Financial Accounting Standards Board 13 straight-line lease income;  
- gain on sale;  
- insurance proceeds;  
- interest income;  
- interest on security deposits;  
- mobile home sales;  
- partnership funds received;  
- sales tax collected;  
- security deposits collected;  
- security deposits returned;  
- straight-line lease income; and  
- tax reimbursement from real estate taxes.  

**EQUALS**  
**EFFECTIVE GROSS INCOME (EGI)**  

**CALCULATION OF OPERATING EXPENSES**
### REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 17   | MINUS    | Line-by-line stabilized operating expenses.  

Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a  

- lease-up,  
- rehabilitation, or  
- other short-term positive or negative factors.  

Non-recurring, extraordinary expenses must not be included.  

You must access:  

- past operating history;  
- the appraisers expense analysis;  
- all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and  
- the Borrower's budget (in the case of an acquisition).  

You must:  

- analyze historical operations at the Property; and  
- apply an appropriate increase over the prior years operations in determining an estimate; and  
- include all STR-related expenses in their respective expense line items, including  
  - cleaning,  
  - furnishing, and  
  - repairs.
### REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>17(a)</td>
<td>MINUS</td>
<td>Property management fee equal to the greatest of:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 3% of EGI;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• actual property management fee (exclude any portion of a non-arms length property management fee that is subordinated to the Mortgage Loan); or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• market property management fee.</td>
</tr>
</tbody>
</table>

4 Minimum property management fee may be 2.5% of EGI (rather than 3% of EGI) provided that the:

• underwritten management fee is at least $300 per unit;
• actual management fee is equal to or less than the underwritten management fee;
• Mortgage Loan has an original principal amount greater than $3 million; and
• market management fees support the underwritten management fee for similarly sized properties.
### REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>17(b)</td>
<td>MINUS</td>
<td>Real estate taxes based on the greatest of:</td>
</tr>
</tbody>
</table>

- actual future tax bill(s) covering a full calendar year;
- prior full years taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or
- in California, the sum of:
  - any special assessments; plus
  - the millage rate multiplied by the greater of the
    - Mortgage Loan amount, or
    - assessed value.

You must:

- consider any automatic tax reassessment upon acquisition in the next 12-month period; and
- for any tax abatement, exemption, deferral, or PILOT expiring within 36 months after the Mortgage Loan Origination Date, underwrite fully assessed real estate taxes.

If the Property has real estate tax abatements, exemptions, deferrals, or PILOTs, they must:

- be in effect at closing, per written documentation from the state or local tax assessor; and
- survive a foreclosure on the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, deferral, or PILOT (i.e., it is tied to the Property and not the owner).
## REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 17(b) continued | MINUS    | If the timeframe for the real estate tax abatement, exemption, deferral, or PILOT is shorter than the Mortgage Loan term, or begins phasing out or expires within 5 years after the Maturity Date, you must consider:  
  • a Bifurcated Mortgage Loan structure (i.e., 2 notes secured by a single first Lien Security Instrument);  
  • an amortization schedule that accommodates the elimination of the abatement; or  
  • providing clear justification and support in the refinance analysis. |
| 17(c)         | MINUS    | Insurance equal to:  
  • the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or  
  • 110% of the current expense, for insurance policies with a remaining term less than 6 months.                                                                                                                     |
| 17(d)         | MINUS    | Utilities, including the following:  
  • building lights;  
  • dumpster rental;  
  • electricity;  
  • fuel oil;  
  • heat;  
  • natural gas;  
  • non-common area electric;  
  • parking lot electric;  
  • parking lot lights;  
  • septic;  
  • trash removal (including contract);  
  • utilities;  
  • vacant unit utilities; and  
  • other.                                                                                                                                                                                                                           |
### REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>17(e)</td>
<td>MINUS</td>
<td>Water and sewer.</td>
</tr>
</tbody>
</table>
### REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 17(f) | MINUS | Repairs and maintenance, including the following:  
- appliances;  
- building;  
- carpet;  
- cleaning;  
- common area maintenance;  
- decorating;  
- electrical;  
- elevator;  
- equipment repairs;  
- exterminating services;  
- floor covering replacement;  
- HVAC;  
- janitorial;  
- landscaping (exterior);  
- landscaping (interior/plants);  
- lawn and grounds;  
- lock/keys;  
- maid service;  
- make ready;  
- mechanical;  
- painting;  
- parking lot;  
- parking lot lighting repair;  
- pest control;  
- plumbing;  
- pool;  
- rubbish removal;  
- scavenger;  
- snow removal;  
- supplies;  
- supplies (cleaning);  
- turnover;  
- vacancy preparation;  
- water irrigation;  
- water treatment;  
- window covering repair/replacement (minor); and  
- other. |
<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 17(g) | MINUS    | Payroll and benefits, including the following:  
  - 401 k;  
  - bonuses;  
  - contract labor (carpet cleaning);  
  - contract labor (make ready);  
  - contract work;  
  - custodian salary;  
  - employee benefits;  
  - employee expense;  
  - employee insurance;  
  - FICA;  
  - health benefits;  
  - labor plumbing;  
  - manager salaries;  
  - payroll and benefits;  
  - payroll and processing;  
  - payroll taxes;  
  - salaries;  
  - salaries maintenance;  
  - security personnels salary;  
  - subcontracted labor;  
  - temporary help;  
  - unemployment insurance;  
  - workers compensation; and  
  - other. |
<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>17(h)</td>
<td>MINUS</td>
<td>Advertising and marketing, including the following:</td>
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<tr>
<td></td>
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<td>• apartment finder/guide;</td>
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<td></td>
<td></td>
<td>• banners;</td>
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<tr>
<td></td>
<td></td>
<td>• brochures;</td>
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<td></td>
<td></td>
<td>• building signage;</td>
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<td></td>
<td></td>
<td>• finders fee;</td>
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<tr>
<td></td>
<td></td>
<td>• media commissions;</td>
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<tr>
<td></td>
<td></td>
<td>• newspaper ads;</td>
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<tr>
<td></td>
<td></td>
<td>• promotions;</td>
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<td></td>
<td></td>
<td>• resident relations;</td>
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<tr>
<td></td>
<td></td>
<td>• signage;</td>
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<tr>
<td></td>
<td></td>
<td>• supplies (marketing);</td>
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<td></td>
<td></td>
<td>• tenant relations;</td>
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<tr>
<td></td>
<td></td>
<td>• Yellow Pages; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• other.</td>
</tr>
<tr>
<td>17(i)</td>
<td>MINUS</td>
<td>Professional fees, including the following:</td>
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<tr>
<td></td>
<td></td>
<td>• accounting or tax preparation fees;</td>
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<td></td>
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<td>• architectural fees;</td>
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<td>• attorney fees;</td>
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<td></td>
<td>• bookkeeping fees;</td>
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<td>• engineering fees;</td>
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<td></td>
<td>• legal fees/expense;</td>
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<tr>
<td></td>
<td></td>
<td>• professional fees; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• other.</td>
</tr>
<tr>
<td>Item</td>
<td>Function</td>
<td>Description</td>
</tr>
<tr>
<td>------</td>
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<td>-------------</td>
</tr>
</tbody>
</table>
| 17(j) | MINUS | General and administrative, including the following:  
- ad valorem tax;  
- administrative fee;  
- alarm system;  
- answering service;  
- auto leasing;  
- auto repairs;  
- bank charges;  
- broker commission/fees;  
- business license;  
- cable;  
- cell phone/pager;  
- commissions;  
- computer repairs;  
- courtesy patrol;  
- credit check;  
- donations;  
- education;  
- entertainment;  
- equipment lease/rental;  
- eviction expense;  
- fire extinguisher;  
- freight and shipping;  
- leased equipment;  
- leasing commissions;  
- leasing office expense;  
- licenses;  
- life safety; |
### REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>17(j)</td>
<td>MINUS</td>
<td>• mileage;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• miscellaneous general and administrative expenses;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• model apartment;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• moving expense;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• office supplies;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• office unit (non-revenue unit);</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• permits;</td>
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<tr>
<td></td>
<td></td>
<td>• personal property taxes;</td>
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<td></td>
<td></td>
<td>• postage;</td>
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<td>• printing;</td>
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<td>• public relations;</td>
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<td>• rental commissions;</td>
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<td>• rental expense;</td>
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<td>• security;</td>
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<td></td>
<td></td>
<td>• security vehicle and maintenance vehicle;</td>
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<td></td>
<td></td>
<td>• space designs and drawings;</td>
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<td>• subscription dues;</td>
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<td></td>
<td>• telephone;</td>
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<td></td>
<td></td>
<td>• travel;</td>
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<td></td>
<td></td>
<td>• truck repairs;</td>
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<tr>
<td></td>
<td></td>
<td>• uniform service;</td>
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<tr>
<td></td>
<td></td>
<td>• utility vehicle;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• vehicle lease;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• vehicle repair and expense; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• other.</td>
</tr>
</tbody>
</table>
### REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)

<table>
<thead>
<tr>
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<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>17(k)</td>
<td>MINUS</td>
<td>Other expenses, including the following:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• ancillary expense;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• franchise taxes and fees;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• general building;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• miscellaneous;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• on-going costs associated with any Interest Rate Cap Agreement;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• other expenses/costs; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• for STR:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- taxes, fees, etc. imposed by the governing jurisdiction; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- if applicable, the difference in actual lease STR income and an equivalent market rate apartment rent (as if leased as an apartment unit).</td>
</tr>
</tbody>
</table>

For example, if actual lease STR income for a unit is $1,000 and market rate residential rent for that unit is $900, then deduct $1,200 ($1,000 - $900 = $100 x 12 months) as an other expense.

Do not include the following:

• amortization;
• depreciation;
• entity (i.e., filing, license, etc.);
• financing fees;
• initial or upfront costs associated with any Interest Rate Cap Agreement;
• interest;
• legal fees associated with securing Mortgage Loans;
• life insurance;
• owner's draw;
• partnership fees;
• principal payments on any loan;
• sales tax paid; and
• trust account fees.
### REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 18   | MINUS    | For a Condominium Property or a Shared Use Property:  
• annual assessment fees, including any expected assessment fee escalation; and  
• any known special assessments. |
| 19   | MINUS    | Ground rent for any Ground Lease or any master lease. Ground Lease bonus rent and/or escalations during the term of the Mortgage Loan must be considered when calculating Underwritten NCF and analyzing refinance risk. |
|      | EQUALS   | UNDERWRITTEN NOI |
| 20   | MINUS    | Replacement Reserve expense, including a  
• minimum annual amount of $200 per unit, or  
• greater amount if required in Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve.  
Replacement Reserve expense must be included whether the escrow is funded or not. |
|      | EQUALS   | UNDERWRITTEN NCF |

### 202.02 Underwritten DSCR

#### Requirements

You must calculate Underwritten DSCR per the following table.

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>Underwritten NCF per Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF).</td>
</tr>
<tr>
<td>Item</td>
<td>Function</td>
<td>Description</td>
</tr>
<tr>
<td>------</td>
<td>----------</td>
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</tr>
<tr>
<td>2</td>
<td>DIVIDED BY</td>
<td>Annual debt service for the Mortgage Loan amount. You must base debt service on a level debt service payment, including amortization, and the greater of the • actual note rate, or • required Underwriting Interest Rate Floor per Form 4660.</td>
</tr>
</tbody>
</table>

When calculating Underwritten DSCR for a Mortgage Loan with an interest-only period, you must use the same level debt service payment, including amortization, regardless of the length of the interest-only period.

The Underwriting Interest Rate Floor, if applicable, is the lowest interest rate you may use to determine the Mortgage Loan amount.

If the Gross Note Rate is below the required Underwriting Interest Rate Floor, per Form 4660, you must use the Underwriting Interest Rate Floor to establish the permitted Mortgage Loan amount.

All underwriting Tier requirements must be based on the Underwritten NCF.

### Section 203 Refinance Risk Analysis

**Requirements**

You must prepare an exit strategy analyzing the Borrower’s ability to refinance the Mortgage Loan in the year after the Maturity Date (e.g., use the projected NCF in year 11 for a Mortgage Loan with a 10-year term), by calculating a:

- “reversion” cap rate, which is the expected capitalization rate able to be supported per the projected NCF; and
- Refinance Interest Rate.

### 203.01 Base Assumptions

**Requirements**

For Loan Year 1, use the Underwritten NCF. For all subsequent Loan Years, you must derive proforma NCF as follows:
<table>
<thead>
<tr>
<th>Factor</th>
<th>For...</th>
<th>Use...</th>
</tr>
</thead>
</table>
| Income Growth Rate         | • Structured Transactions, and • Mortgage Loans secured by multiple Properties | 2%.
<p>|                            | All other Mortgage Loans                                              | the growth rates published in DUS Gateway for the Property.            |
| Economic Vacancy           | All Mortgage Loans                                                     | the underwritten economic vacancy rate.                                 |
| Real Estate Taxes          | California Properties                                                  | • acquisitions, 2%; or • refinances, no trending is required until the year when the actual tax bill would surpass the underwritten taxes, then trend by 2%. |
|                            | Non-California Properties                                              | • use 3% for • Structured Transactions, and • Mortgage Loans secured by multiple Properties; and • for all other Mortgage Loans, use the growth rates published in DUS Gateway for the Property. |</p>
<table>
<thead>
<tr>
<th>Factor</th>
<th>For...</th>
<th>Use...</th>
</tr>
</thead>
</table>
| Real Estate Tax Abatements,             | All Mortgage Loans          | • if an abatement, exemption, deferral, or PILOT begins phase out or expires within 5 years after the Maturity Date, use fully assessed real estate taxes; and  
| Exemptions, Deferrals, or PILOTs        |                             | • if an abatement expires or taxes are expected to rise during the Mortgage Loan term, increase taxes to the expected level, then trend by:  
|                                         |                             |   - 3% for  
|                                         |                             |   ▪ Structured Transactions, and  
|                                         |                             |   ▪ Mortgage Loans secured by multiple Properties; or  
|                                         |                             |   - the growth rate published in DUS Gateway in the year prior to the adjustment for all other Mortgage Loans. |
| Management Fee                         | All Mortgage Loans          | the underwritten rate.                                                                                                                                 |
| Replacement Reserves                   | All Mortgage Loans          | the underwritten value.                                                                                                                                 |
| Insurance and Other Expenses           | • Structured Transactions,  | 3%.  
|                                         |   and  
|                                         |   • Mortgage Loans secured by multiple Properties                                   |                                                                                       |
|                                         | All other Mortgage Loans    | the growth rates published in DUS Gateway for the Property.                                                                                   |
You must estimate the Mortgage Loan UPB at the Maturity Date as follows:

<table>
<thead>
<tr>
<th>For...</th>
<th>Use...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortization</td>
<td>• 30 years, or</td>
</tr>
<tr>
<td></td>
<td>• the amortization for the applicable product or features.</td>
</tr>
<tr>
<td>DSCR</td>
<td>The minimum Tier 2 DSCR for the applicable product or features, per Form 4660.</td>
</tr>
<tr>
<td>LTV</td>
<td>The maximum Tier 2 LTV for the applicable product or features, per Form 4660.</td>
</tr>
</tbody>
</table>

**Guidance**

Since these base assumptions are indicative only, you may use more conservative estimates if warranted by circumstances particular to the Property.

In most cases, the combined effect of principal amortization and NCF growth should result in a refinancing at the minimum DSCR and maximum LTV for Tier 2, using a reasonable interest rate.

You should consider the following refinance parameters:

- A target reversion capitalization rate at least 2.0% greater than the initial capitalization rate used for determining Underwriting Value.
- A Refinance Interest Rate at least 2.25% greater than the current 10-year Amortizing Nationwide Underwriting Floor rate, per Form 4660.

**203.02 Alternative Assumptions**

**Guidance**

If you determine the base assumptions do not appropriately estimate the Property's NCF over the Mortgage Loan term, you may present an alternative risk analysis using assumptions that deviate from the base assumptions.

You should:

- specifically identify and support any deviations with reliable evidence and historical and projected market trends; and
- state your conclusions and discuss any mitigating factors, such as the strength of the Sponsor or the submarket,
Property's characteristics, or
Property's operating history and performance.

Income and Expense Growth Rates: Income and expense trending should incorporate projected market rates based upon general economic, market, and submarket conditions from reliable sources. For example:

- Rents on recently signed leases should only be used for estimating income growth in Loan Years 1 and 2.
- Rent projections greater than the Base Assumption Income Growth Rate should not be used beyond Loan Year 4.
- When improvements in market economic occupancy or sustained market rental rate increases are widely anticipated, growth trends above the Base Assumption Income Growth Rate may be supported.
- Projections of income growth resulting from Property renovations or improved operations should be limited to the first 3 Loan Years.
- When a Property is subject to a scheduled reassessment or a tax abatement phase-in period, tax expense should be adjusted appropriately.
- If a tax abatement, exemption, deferral, or PILOT begins phase out or expires more than 5 years after the Maturity Date, consider if the increased expense within 10 years after the Maturity Date may affect the Borrower's ability to refinance, and warrants
  - a lower Mortgage Loan amount,
  - faster amortization, or
  - a reduced interest only period.

- When you expect to incur costs for tenant improvement allowances and leasing commissions, or to realize rent increases from the rollover of tenants, commercial income should be adjusted appropriately.

Economic Vacancy: Properties in submarkets with depressed economic conditions due to temporary demand or supply issues may be modeled to reflect the economic vacancy projected by a reliable source. If you expect a decrease in vacancy to achieve stabilized levels, you should consider

- the anticipated timing, and
- effect of decreased economic vacancy on projected income growth over the same time period.
Section 204  

Cash Out Analysis

☑️ Requirements

You must:

- examine the risk of allowing cash out to the Borrower (see Form 4660 for a description of cash out transactions); and
- for New Construction, consider the Mortgage Loan amount relative to the Property's total development cost basis.

➡️ Guidance

When underwriting a cash out transaction you should consider:

- the amount of hard equity remaining in the Property, excluding prior permanent financing costs, such as interest or prepayment premium;
- the length of time the Borrower has owned the Property;
- the Property's effective age and current physical condition;
- any improvement in asset quality over the ownership period;
- any improvement in the Property's operations (i.e., its NCF) or value over the ownership period;
- if the Property's value increased due to an increase in NCF, rather than a decrease in the capitalization rate; and
- for New Construction, the Property's total development costs basis:

<table>
<thead>
<tr>
<th>New Construction</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>For...</strong></td>
</tr>
<tr>
<td>Land</td>
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<td></td>
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<tr>
<td>Hard Costs</td>
</tr>
<tr>
<td>------------</td>
</tr>
<tr>
<td>• items including</td>
</tr>
<tr>
<td>- substructure,</td>
</tr>
<tr>
<td>- shell,</td>
</tr>
<tr>
<td>- interiors,</td>
</tr>
<tr>
<td>- construction services,</td>
</tr>
<tr>
<td>- equipment, and</td>
</tr>
<tr>
<td>- furnishings;</td>
</tr>
<tr>
<td>• developer fee (8% maximum); and</td>
</tr>
<tr>
<td>• general contractor fee (10% maximum).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Soft Costs</th>
<th>Fees for:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• appraisal, market studies, etc.;</td>
<td></td>
</tr>
<tr>
<td>• professional services, including</td>
<td></td>
</tr>
<tr>
<td>- architecture,</td>
<td></td>
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<tr>
<td>- engineering,</td>
<td></td>
</tr>
<tr>
<td>- consulting,</td>
<td></td>
</tr>
<tr>
<td>- legal, and</td>
<td></td>
</tr>
<tr>
<td>- accounting;</td>
<td></td>
</tr>
<tr>
<td>• review, impact, and testing (i.e., surveys, feasibility, environmental, geotechnical);</td>
<td></td>
</tr>
<tr>
<td>• building permits and utility access; and</td>
<td></td>
</tr>
<tr>
<td>• any HUD and LIHTC processing.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Construction Financing Costs</th>
<th>Expenses for:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• construction loan financing, including</td>
<td></td>
</tr>
<tr>
<td>- interest, and</td>
<td></td>
</tr>
<tr>
<td>- origination fee;</td>
<td></td>
</tr>
<tr>
<td>• construction period</td>
<td></td>
</tr>
<tr>
<td>- real estate taxes,</td>
<td></td>
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<tr>
<td>- insurance, and</td>
<td></td>
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<tr>
<td>- utilities; and</td>
<td></td>
</tr>
<tr>
<td>• Bond related fees.</td>
<td></td>
</tr>
</tbody>
</table>

| HUD or LIHTC New Construction | Amount supported by the Cost Certification. |
# Cash Out Transaction Support

<table>
<thead>
<tr>
<th>Factor</th>
<th>Should...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Out Proceeds</td>
<td>Be commensurate with the length of the ownership period.</td>
</tr>
<tr>
<td>Property Condition</td>
<td>Have improved or been good over the ownership period.</td>
</tr>
<tr>
<td>Property NCF</td>
<td>Have improved over the ownership period.</td>
</tr>
<tr>
<td>Property Value</td>
<td>Have increased due to higher NCF over the ownership period.</td>
</tr>
</tbody>
</table>

## Section 205 Rent-Stabilized Properties

### Guidance

For Rent-Stabilized Properties (e.g., located in New York State), you should:

- underwrite Property income based on current rents;
- exclude any potential rent increase for units converting to market rate from the projected NCF in the refinance risk analysis;
- assess and stress the cap rate used to determine the Underwriting Value, and consider obtaining an Appraisal before Rate Lock;
- for fund Sponsors or other Sponsors requiring minimum investment returns, consider whether the Sponsor's interests are aligned with the limited rent increases allowed under the law; and
- fund the Replacement Reserve to maintain the Property's physical condition.
Chapter 3 Legal Compliance

Section 301 Zoning and Legally Non-Conforming Status

301.01 Zoning

Requirements

For each Property, you must:

- identify the current zoning or land use designation;
- determine if the existing Property use (e.g., multifamily, single-family, mixed use, Manufactured Housing Community, etc.) is expressly permitted per current zoning and land use laws and regulations; and
- confirm the Property’s characteristics (e.g., building height, density, setback lines, etc.):
  - conform to current zoning requirements and land use designations; or
  - are legally non-conforming per applicable zoning or land use laws and regulations.

If you order a Zoning Report from a zoning consultant, you must:

- upload the zoning report to DUS Docway in Folder II; and
- deliver structured data per the Zoning Report Data Supplement (Form 4089).

301.02 Legal Non-Conforming Use

Requirements

If the Property is a legal non-conforming use, you must:

- ensure the Borrower executes Modifications to Multifamily Loan and Security Agreement (Legal Non-Conforming Status) (Form 6275);
- confirm, following a casualty, the percentage of damage to the Property’s Improvements (i.e., the destruction threshold) at which the Property jurisdiction would prohibit the rebuilding of all impacted Improvements to the pre-casualty use and condition under current
  - laws,
  - zoning requirements, and
  - building codes; and
If the destruction threshold is less than 50%, not Deliver the Mortgage Loan.

301.03 Legal Non-Conforming Characteristics

☑ Requirements

If the Property's characteristics are legally non-conforming, you must:

- ensure the Borrower executes the Modifications to Multifamily Loan and Security Agreement (Legal Non-Conforming Status) (Form 6275);

- confirm whether, if fully or partially destroyed, the Property's Improvements can be fully rebuilt to the pre-casualty condition per current laws,
  - zoning requirements, and
  - building codes; and

- if the Property's Improvements cannot be fully rebuilt to the pre-casualty condition,
  - evaluate if the as-rebuilt Property will support the Mortgage Loan at the current Tier, and
  - document your analysis in the Transaction Approval Memo.

🔗 Guidance

To assess the Borrower's ability to rebuild Improvements on a non-conforming Property to a level that will support the Mortgage Loan at the current Tier, you should consider:

- conducting a threshold analysis to determine the resulting actual amortizing DSCR if the reconstructed Improvements cannot be rebuilt as-is per current law;

- the likelihood of a casualty event (e.g., wind, earthquake, fire, flood, mine subsidence, etc.);

- the percentage of damage to the Improvements at which the Property's jurisdiction will require the Property be rebuilt to current zoning and land use requirements (i.e., the destruction threshold);

- which Property characteristics the destruction threshold percentage applies to, such as
  - market value,
assessed value,
replacement cost, or
unit count;

for Properties with multiple buildings, if the destruction threshold percentage applies to
each building, or
all buildings as a whole;

the replacement cost to rebuild per current requirements for
zoning, and
land use;

the Property’s continued
marketability, and
economic viability;

the amount and type of Borrower-maintained insurance coverage required per Part II, Chapter 5: Property and Liability Insurance, Section 501.02C: Ordinance or Law Insurance;

insurance loss proceeds payout, compared to increased rebuilding costs, including from
building code changes,
Americans with Disabilities Act compliance, and
the municipality's local zoning requirements (e.g., green compliance for new buildings, etc.);

the sufficiency of estimated insurance proceeds from ordinance or law insurance and other coverages to repay the Mortgage Loan in the event of partial or full
casualty, or
condemnation; and

for a Tier 3 or Tier 4 Mortgage Loan, if requiring execution of the Limited Payment Guaranty (Form 6020.LPG) would mitigate the risk of the as-rebuilt Property not supporting a Tier 2 Mortgage Loan.

Section 302  Easements
Requirements

You must evaluate the impact of all easements (public and private), including their effect on:

- the Property's value and marketability; and
- life safety issues, environmental risks, and acceptability in the market area for certain types of easements, such as for
  - transcontinental pipelines,
  - high power electric transmission lines, or
  - drainage channels.

Guidance

Easements for normal utilities are generally acceptable, including those that provide natural gas, water, sewer, electricity, or telephone service to the Property.

Easements that serve other properties will generally be acceptable if they

- do not interfere with Improvements on the Property,
- are limited to residential and reasonable commercial use, and
- are covered by appropriate insurance.

Section 303  Liens and Encumbrances

### 303.01  Generally

Requirements

You must ensure that the Property is free of all Liens and rights of others, except for

- Permitted Encumbrances, and
- cable and laundry leases per Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases.

You must analyze any restrictions on Improvements or the use of the Property, in order to

- determine whether the restrictions are acceptable, and
- make recommendations for addressing the restrictions.
Examples of restrictions that must be analyzed include restrictive covenants and any restrictions that have been offered, or accepted, in order to obtain a zoning approval or building permit.

If a non-MAH Property has an Affordable Regulatory Agreement, it must be subordinated to the Security Instrument Lien per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 705: Restrictive Covenants and Affordable Regulatory Agreements.

_guidance

When determining whether a restriction is acceptable, you should consider whether a restriction could negatively impact the Property’s

- value,
- use,
- security,
- marketability, or
- ability to generate NCF sufficient to pay debt service.

_requirements

You must analyze the impact of any restriction on the conversion of a Property to a condominium or similar development.

_guidance

A restrictive covenant on condominium conversions will generally not have a negative impact if all of the following apply:

- The conversion restriction is for a period of 10 years or less.
- Any repurchase option or right of reversion in favor of a benefitted party:
  - is unconditionally subordinated to the Lien of the Security Instrument and to the Mortgage Loan;
  - includes an unconditional “standstill” provision prohibiting the exercise of such option or right while the Mortgage Loan is outstanding; and
  - automatically ends if a Foreclosure Event occurs.
- The covenant provides that no mortgagee, trustee, or beneficiary under any mortgage or deed of trust will be liable for any act, omission, or indemnification obligation of the Borrower or any prior or subsequent owner of the Property.
- The covenant does not require any mortgagee, trustee, or beneficiary
under a mortgage or deed of trust to execute an assumption or similar agreement if a Foreclosure Event occurs.

### 303.02 Property Previously Secured Bond Financing

#### ✅ Requirements

<table>
<thead>
<tr>
<th>If the Property...</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previously secured taxable or tax-exempt bonds</td>
<td>• determine if the Property is subject to any requirements, restrictions or other features that survived repayment, and • analyze whether the surviving features will have a material adverse impact on you, Fannie Mae, or the Mortgage Loan.</td>
</tr>
<tr>
<td>Currently secures taxable or tax-exempt bonds that are being retired with proceeds of the Mortgage Loan</td>
<td>• review the bond documents, and • analyze the impact of any surviving features of the financing.</td>
</tr>
</tbody>
</table>

#### ➡️ Guidance

A Property that secures, or has secured, bonds may be subject to certain requirements, restrictions, or other features that survive repayment of the bonds such as:

- rent, income, transfer, or other restrictions;
- master lease requirements that support such restrictions; and
- indemnification or other requirements that could
  - burden a future owner,
  - depress the value or marketability of the Property, or
  - prevent or inhibit foreclosure of a lien securing new financing.

#### 🌿 Operating Procedures

For any bonds being retired with the proceeds of a Mortgage Loan, you must prepare a written summary of the bond documents that:

- explains why any surviving features of the financing will not have a materially adverse effect on the Mortgage Loan, the Property, you, or
Section 304  Title Insurance

Requirements

You must ensure that every Mortgage Loan is covered by an ALTA title policy or comparable title policy approved for use in the applicable jurisdiction.

The title policy must:

- be issued by a title company that is authorized to issue title policies where the Property is located;
- be in the original amount of the Mortgage Loan, including all advances held in escrow or reserves;
- be no less than the amount of the Mortgage Loan allocated to each Property, if the Mortgage Loan is secured by multiple properties;
- insure for the benefit of Fannie Mae;
- insure the first priority Lien of the Mortgage Loan, subject only to the Permitted Encumbrances, unless it is a Supplemental Mortgage Loan;
- be in full force and effect with
  - all premiums paid,
  - no claims made by you or another lender, and
  - no claims paid;
- insure the legal description of the insured property is identical to the legal description of the property shown on any required survey;
- contain:
  - a Comprehensive Endorsement (ALTA Form 9 or equivalent);
  - an Environmental Protection Lien Endorsement (ALTA Form 8 or equivalent) that only takes exception for a statute that could give an environmental protection Lien priority over the Mortgage Loan;
  - a Mortgage Tax Endorsement (ALTA Form 38.06 or equivalent) if the Mortgage Loan is secured by an amended and restated Security Instrument, such as a New York Consolidation, Extension, and Modification Agreement (Form 6025.NY.CEMA), or a Florida Consolidated, Amended, and Restated Mortgage (Form 6025.FL.AR);
and

- appropriate Endorsements such as:
  - Zoning (where available);
  - Condominium;
  - PUD;
  - Variable Rate;
  - Leasehold Mortgage;
  - Location;
  - Unlocated Easements; and/or
  - Contiguity-Multiple Parcel;

- delete the standard survey exception;
- include a note on Schedule B, Part II listing you as the secured party and Fannie Mae as the assignee, for any financing statement filed in the recording office;
- not list any financing statement as an exception on Schedule B, Part I; and
- insure that any taxes, assessments, or other lienable items are not yet due and payable.

### 304.01 Title Insurance Company

#### Guidance

The title company should have a satisfactory rating and adequate reserves.

### 304.02 Policy Form

#### Guidance

If the policy form meets all requirements of this Section, Fannie Mae will accept the standard 2021 or 2006 ALTA forms of title insurance policies.

In those states where ALTA forms of coverage are not approved by the state insurance board or commission, you should get the closest equivalent alternative coverage.

### 304.03 Electronic Policies
Guidance

You may use electronically issued title policies if the coverage is enforceable against the insurer.

304.04 Insured

Guidance

The title policy should

- name you as the insured, and
- insure Fannie Mae when the Mortgage Loan is delivered (either by reference to your “successors and assigns, as their interests may appear” or by direct reference to Fannie Mae).

304.05 Effective Date

Requirements

You must have title coverage in effect (i.e., the date of the signed pro forma policy or marked-up commitment) when you fund the Mortgage Loan.

Guidance

The issued title policy should be later-dated to cover the Assignment of Security Instrument’s recording date.

304.06 Survey Exception

Guidance

If the title policy includes exceptions to matters shown on a recorded map or plat, the exceptions should be specifically described.

304.07 Exception for Taxes, Assessments, or Other Lienable Items

Guidance

If any taxes could become delinquent within 60 days after closing, you should require payment at closing.

304.08 Financing Statements
304.09 Endorsements

304.09A Generally

Guidance

Any financing statement not filed in the recording office (such as a Uniform Commercial Code filing) may be shown as an informational note on Schedule B, Part II.

304.09B Environmental Protection Lien Endorsement

Guidance

Super Lien statutes that may be included in the ALTA Form 8.1 endorsement are listed in the Acceptable Super Lien Statutes (Form 6506).

304.09C Comprehensive Endorsement

Guidance

You should consider whether an adverse circumstance affecting the Property would be an acceptable exception on Schedule B, Part II. Examples include:

- encroachments onto the Property;
- easements or rights of way over the Property;
- encroachments by the Improvements onto adjoining land; and
- violations of existing covenants, conditions, and restrictions.

304.10 Document Retention

Guidance

You should keep copies of any restrictions shown as exceptions in the title policy (such as easements and encumbrances) in your Servicing File.
### Section 305 Survey

#### 305.01 Decision to Obtain a Survey

- **Requirements**

  You must decide whether to get an as-built survey and comply with:

  - Part II, Chapter 3: Legal Compliance, Section 305.02: Survey, if you require a survey; or
  - Part II, Chapter 3: Legal Compliance, Section 305.03: Decision Not to Obtain a Survey, if you do not require a survey.

#### 305.02 Survey

- **Requirements**

  If you require an as-built survey, it must:

  - meet the requirements of an ALTA/NSPS Land Title Survey (made per the 2021 Minimum Standard Detail Requirements), including the required certification; and
  - allow the title company to delete the standard survey exception from the title policy.

- **Guidance**

  An acceptable as-built survey:

  - should include these items from Table A to all the ALTA/NSPS Minimum Standard Detail Requirements: 1, 2, 3, 4, 6(a) and (b), 7(a), 8, 9, 10, 13, 16, and 18;
  - may omit the following from Table A:
    - item 1 for a Property with a lot and block legal description; and/or
    - item 10, if there are no party walls; and
  - should be dated within 360 days before recording the Security Instrument.

- **Requirements**

  If an existing survey dated more than 360 days before the effective date of the title insurance policy is used, it must satisfy all Title Insurance Company requirements for the deletion of the standard survey exception.
Guidance

The Title Insurance Company may require a “no new improvements” affidavit from the Borrower certifying that no changes have been made to the Property since the date of the survey. An existing survey dated within 360 days before the effective date of the title insurance policy, but not prepared in connection with the origination of the Mortgage Loan, may be recertified to you, the Title Insurance Company, and Fannie Mae for the Mortgage Loan.

You should consider whether an adverse circumstance found by a survey would be acceptable. Examples include:

- encroachments over boundary lines, setback lines, or easements; and
- the absence of necessary appurtenant easements, such as a storm or sanitary sewer easement.

305.03 Decision Not to Obtain a Survey

Requirements

If you do not require an as-built survey:

- either you or the appraiser must conduct a visual inspection of the Property;
- any visible site condition (such as an easement, right-of-way, or encroachment) must be disclosed and insured under the title policy; and
- the title company must delete the standard survey exception from the title policy.

305.04 Location of Improvements

Requirements

Whether or not you decide to get an as-built survey, Part II, Chapter 5: Property and Liability Insurance, Section 501.03: Catastrophic Risk Insurance requires you to determine if any Improvements are located in an SFHA Zone A or Zone V.

Section 306 Security Interests in Personal Property

306.01 Uniform Commercial Code (UCC) Financing Statements

Requirements

You must:
- Ensure that the Security Instrument creates a Lien on all Personal Property.
- Ensure that the Lien is a perfected first priority Lien.
- Assign each UCC security interest to Fannie Mae.

## 306.02 Creating and Perfecting the Security Interest

### Guidance

Article 9 of the UCC covers the perfection of a security interest in Personal Property.

The following table describes how to create and perfect a security interest.

<table>
<thead>
<tr>
<th>To…</th>
<th>Do the following…</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establish whether the Borrower or a third party owns the Personal Property</td>
<td>Confirm that the Borrower has provided a representation of ownership in the Underwriting Certificate (Borrower) (Form 6460.Borrower).</td>
</tr>
<tr>
<td>Verify that no other party has a Lien on the Personal Property</td>
<td>Conduct searches for UCC financing statements, tax Liens, and judgments on all relevant parties to the transaction.</td>
</tr>
<tr>
<td>Obtain a perfected first security interest in the Personal Property</td>
<td>• Obtain a security agreement from each third party that owns Personal Property.</td>
</tr>
<tr>
<td></td>
<td>• Verify that the Security Instrument and each third party security agreement contains a granting clause creating a security interest in all Personal Property.</td>
</tr>
<tr>
<td></td>
<td>• File a UCC-1 financing statement in the appropriate filing and recording office(s), with a description that matches the security interest granted in the Security Instrument.</td>
</tr>
<tr>
<td>Assign the security interest from you to Fannie Mae</td>
<td>File an appropriate assignment (e.g., UCC-1Ad; UCC-3) in the same office(s) where the UCC-1 is filed or recorded.</td>
</tr>
</tbody>
</table>
Chapter 4  Inspections and Reserves
Section 401  Site Inspection and Lease Audit

☑️ Requirements

Before the Commitment Date, you must ensure:

- a physical inspection of the Property was performed by
  - you, or
  - a Non-Employee or Outside Party per the Program Rules;
- the MBA Standard Inspection Form was completed; and
- a lease audit was conducted reconciling the inspection findings with the
  - rent roll, and
  - lease terms.

You must:

- randomly select Property units for inspection; and
- not Deliver any Mortgage Loan secured by a Property that has an overall rating of 4 or 5 per the Comprehensive Assessment tab of the MBA Standard Inspection Form.

If the Property's rent roll indicates an inspected unit is occupied:

- the inspector must confirm the unit is occupied; and
- you must:
  - confirm the inspector's findings during your lease audit; and
  - complete a lease audit form or document your reconciliation of lease terms with the rent roll.

➡️ Guidance

When auditing the leases:

- include a:
  - minimum of 5 leases; and
  - maximum of the lesser of
    - 30 leases, or
10% of the leases;

- at least 50% of the audited leases should include a combination of
  - inspected units,
  - recent renewals, and
  - newly signed leases sufficient to verify rent trends;

- if you detect material discrepancies during the initial review, increase the
  number of lease reviews;

- include a tenant file review; and

- review the cash ledger or receipts journal to validate rent collections.

Section 402  Property Condition Assessment (PCA)

402.01  When to Perform a PCA

** Requirements

Before the Commitment Date, you must:

- complete a PCA for each Property unless it is a Supplemental Mortgage Loan that complies with Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402.05: Streamlined Underwriting; and

- ensure all:
  - Potential Red Flags for Mortgage Fraud and Other Suspicious Activity were considered; and
  - unresolved red flags were reported per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance.

402.02  Date of PCA Report and PCA Site Visit

** Requirements

A PCA Report (Form 4099) containing an HPB Module (or any standalone HPB Report) must be dated as of the date of the site visit by the PCA Consultant, and must be less than 6 months before the Commitment Date.

A PCA report that does not include an HPB Module may be dated up to 12 months before the Commitment Date if you:
ensure a site visit is performed within 90 days before the Commitment Date; and
confirm that there has been no material adverse change to the physical condition of the Property since the date of the PCA report.

402.03 Conducting the PCA

Requirements

When conducting the PCA, you must:

- comply with Form 4099, and order all applicable PCA modules;
- identify all conditions that impact resident safety, marketability, or value of the Property; and
- properly mitigate those conditions.

If you retain a PCA Consultant that does not meet the educational qualifications or professional certifications, registrations, or training required by Form 4099, you must:

- determine that the PCA Consultant is qualified based on their alternative qualifications; and
- attach your description of the PCA Consultant’s qualifications to the final PCA.

You must have an annual quality control program to review

- the quality of the PCAs performed by your PCA Consultant, and
- your compliance with the requirements in this Section and the Form 4099.

Section 403 Completion/Repairs

403.01 Property Evaluation

Requirements

You must determine whether the Borrower will need to fund the Completion/Repair Escrow by evaluating

- the physical condition of the Property,
- the financial condition of the Borrower, and
all necessary life safety Completion/Repairs.

You must include the estimated expense of all Completion/Repairs with the cost of all other Rehabilitation Work to determine whether you need to follow the requirements of Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans for a Moderate Rehabilitation Property.

**Guidance**

The Completion/Repair Schedule should include:

- Property needs identified as Immediate Repairs in the PCA, including:
  - life safety repairs;
  - critical repairs;
  - deferred maintenance; and
  - short-term replacement of capital items; and
- any capital improvements not recommended by the PCA Consultant that
  - the Borrower will make after the Mortgage Loan Origination Date, and
  - you want the appraiser to include in its opinion of the market value of the Property on an “as completed” basis.

You should ensure that the Borrower completes the repairs and improvements identified on the Completion/Repair Schedule as outlined below.

<table>
<thead>
<tr>
<th>Type of item…</th>
<th>Complete as follows…</th>
</tr>
</thead>
<tbody>
<tr>
<td>For items identified as life safety repairs in the PCA</td>
<td>Comply with Part II, Chapter 4: Inspections and Reserves, Section 403.03: Life Safety Issues.</td>
</tr>
<tr>
<td>For items identified as critical repairs in the PCA</td>
<td>Within 6 months after the Mortgage Loan Origination Date, or sooner if recommended by the PCA Consultant.</td>
</tr>
<tr>
<td>For items identified as repairs required to comply with the Americans With Disabilities Act in the PCA</td>
<td>Within 90 days or less per applicable laws, ordinances, or building codes.</td>
</tr>
<tr>
<td>Type of item…</td>
<td>Complete as follows…</td>
</tr>
<tr>
<td>---------------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>For items identified as deferred maintenance or items of note in the PCA</td>
<td>Within 12 months after the Mortgage Loan Origination Date, or sooner if recommended by the PCA Consultant.</td>
</tr>
<tr>
<td>For items identified as short term replacement of capital items in the PCA</td>
<td>By the specific date recommended by the PCA Consultant, but may be longer than 12 months after the Mortgage Loan Origination Date.</td>
</tr>
<tr>
<td>For capital improvements that are • to be made by the Borrower in addition to those included on the PCA, and • are included in the Appraisal opinion of the market value of the Property on an as completed basis</td>
<td>Comply with Part II, Chapter 2: Valuation and Income, Section 201.02C: Appraised Value.</td>
</tr>
<tr>
<td>For items identified as a Completion/Repair by the PCA when the estimated expense requires you to comply with Part III, Chapter 3 for a Moderate Rehabilitation Property</td>
<td>Comply with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans.</td>
</tr>
<tr>
<td>For all other Rehabilitation Work that was not identified as a Completion/Repair by the PCA</td>
<td>Comply with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans.</td>
</tr>
</tbody>
</table>

**403.02 Completion/Repairs Funding**

✅ **Requirements**

When full or partial funding of the Completion/Repair Escrow is required, you must complete the Completion/Repair Schedule.

➡️ **Guidance**

The amount funded into the Completion/Repair Escrow on the Mortgage Loan Origination Date should be at least 125% of the estimated cost of the required Completion/Repairs.

You may choose not to fund the Completion/Repair Escrow entirely if you determine the Borrower has the financial capacity to fully address all...
Completion/Repairs in the PCA.

**Requirements**

If you choose not to fund the Completion/Repair Escrow entirely, you must obtain written assurances from the Borrower in the Multifamily Loan Agreement that all necessary Completion/Repairs will be completed within a stated period of time following the Mortgage Loan Origination Date.

### 403.03 Life Safety Issues

**Requirements**

You must ensure that all life safety repairs and remediation work for code violations are included on the Completion/Repair Schedule.

All life safety repairs must be completed

- for an acquisition, within 60 days after the Mortgage Loan Origination Date, or
- in all other cases, before delivering the Mortgage Loan to Fannie Mae.

**Guidance**

You should consider requiring an escrow deposit (for at least 125% of estimated costs) to cover these required Completion/Repairs.

### 403.04 Verifying Completion/Repairs

**Requirements**

You must verify that the Borrower has made all required Completion/Repairs

- whether the Completion/Repair Escrow was funded or not, and
- during your Property inspections before the required completion date.

### Section 404 Replacement Reserve

#### 404.01 Determining Replacement Reserve

**Requirements**

You must ensure that the Borrower has sufficient reserves to cover anticipated capital replacement and major maintenance costs. The total amount in the Replacement Reserve should equal or exceed the anticipated
costs (adjusted for inflation) of all necessary capital item replacements and major maintenance needs and repairs for the period from the Mortgage Loan Origination Date to whichever is sooner:

- 2 years after the Maturity Date of the Mortgage Loan; or
- 12 years after the Mortgage Loan Origination Date.

In order to determine the minimum amount of the Replacement Reserve, you must:

- Obtain a PCA (Form 4099).
- Complete the schedule of items to be included in the Replacement Reserve Schedule
  - using the cost estimates in the PCA, and
  - taking into account any items not already included on the Completion/Repair Schedule.

### 404.02 Replacement Reserve Funding

**Requirements**

You must ensure that the costs of all items included in the Replacement Reserve Schedule have been fully funded for

- any Tier 2 Mortgage Loan, and
- any Mortgage Loan, regardless of Tier, that requires Completion/Repairs costing more than
  - 4% of the Property’s Underwriting Value for refinance transactions, or
  - 6% of the Property’s Underwriting Value for acquisition transactions.

If you choose to modify the Loan Documents to not fund a Replacement Reserve for a Tier 3 or Tier 4 Mortgage Loan, you must use the appropriate Replacement Reserve Schedule.

**Guidance**

You may choose not to fund a Replacement Reserve for any Tier 3 or Tier 4 Mortgage Loan if

- the required Completion/Repairs do not exceed the levels specified in this Section, and
- you determine that the Borrower has the financial capacity to fully
address future capital expenditures as outlined in the PCA.

<table>
<thead>
<tr>
<th>404.03 Alternative Replacement Reserve Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>** Guidance **</td>
</tr>
<tr>
<td>Instead of full funding, you may choose this alternative method for funding the Replacement Reserve.</td>
</tr>
</tbody>
</table>

| ** Requirements **                              |
| If you choose this alternative funding, you must have the Borrower deposit the following amounts on the Mortgage Loan Origination Date: |
| - Monthly deposits for at least 2 years.       |
| - For any significant capital item replacement or major maintenance need that you deem appropriate, an amount sufficient to cover anticipated costs for the period from the Mortgage Loan Origination Date to whichever is sooner: |
|   - 2 years after the Maturity Date of the Mortgage Loan; or |
|   - 12 years after the Mortgage Loan Origination Date. |

You must hold these amounts in the Replacement Reserve for the entire term of the Mortgage Loan, and may not make them available for refund to the Borrower until the Mortgage Loan has been paid in full.

<table>
<thead>
<tr>
<th>** Section 405 Escrow Requirements for Taxes and Insurance **</th>
</tr>
</thead>
<tbody>
<tr>
<td>** 405.01 Escrows **</td>
</tr>
<tr>
<td>** Requirements **</td>
</tr>
<tr>
<td>You must require any Tier 2 Mortgage Loan Borrower to make monthly escrow deposits for real estate taxes and insurance premiums.</td>
</tr>
</tbody>
</table>

| ** 405.02 Real Estate Tax Escrow Funding **                  |
| ** Guidance **                                              |
| You may choose not to fund monthly escrow deposits for real estate taxes for a Tier 3 or Tier 4 Mortgage Loan. |

| ** Requirements **                                           |
| You may choose not to fund monthly escrow deposits for real estate taxes for a Tier 3 or Tier 4 Mortgage Loan. |
If you choose not to fund monthly deposits for real estate taxes then you must ensure all taxes are paid timely.

### 405.03 Insurance Escrow Funding

#### Guidance

You may choose not to fund monthly escrow deposits for insurance premiums for a Tier 3 or Tier 4 Mortgage Loan.

#### Requirements

If you choose not to fund monthly deposits for insurance premiums, you must require the Borrower to provide annual proof of payment of all insurance premiums.
Chapter 5  Property and Liability Insurance

Section 501  Property and Liability Insurance

501.01  General Insurance – Applies to All Policies

501.01A  Generally

 Guidance

When terms or acronyms for insurance forms and policies are capitalized in this Chapter, they refer to Insurance Services Office (ISO) forms and policies or their equivalent. Other capitalized terms and acronyms have standard insurance industry meanings.

 Requirements

Each Property must be covered by compliant property insurance and liability insurance for the term of the Mortgage Loan. If the Borrower fails to maintain any required insurance on a Property, you must obtain the required coverage.

All insurance policies must:

- list the Borrower as a named insured;
- be written on a per occurrence basis, except for earthquake insurance and professional liability Insurance, which may be written on a per occurrence or claims-made basis;
- include a provision requiring the carrier to notify each Mortgagee and/or Additional Insured in writing at least 10 days before policy cancellation for non-payment of premium and 30 days before cancellation for any other reason, unless the Loan Documents expressly require the Borrower to notify the Lender promptly of any notice of cancellation it receives;
- except for professional liability insurance, name Fannie Mae as Additional Insured on all liability insurance and excess/umbrella insurance; and
- contain a mortgagee clause and loss payable clause for the benefit of Fannie Mae, its successors, and assigns.

All property insurance policies must use Replacement Cost valuation, however, coverage for roofs may use Actual Cash Value or Replacement Cost valuation.

 Guidance

All requirements apply to the review you perform before closing as well as to the Servicer's annual compliance review.
You are expected to obtain the advance cancellation notice for the benefit of each Mortgagee and Additional Insured from the insurance carriers whenever possible. When that is not possible, you should ensure that the final Loan Documents have not been modified in any manner that limits

- the Borrower’s obligation to provide prompt notice to the Lender of any notice of cancellation it receives from an insurance carrier, or
- any recourse liability of the Borrower or any Guarantor as a result of any failure to maintain all insurance coverages required by the Loan Documents.

Below is an acceptable mortgagee clause.

Fannie Mae, its successors and/or assigns, as their interest may appear
c/o [Lender Name]
Lender’s Street Address or PO Box
Lender’s City, State and Zip Code

**Operating Procedures**

If you are not able to obtain the advance cancellation notice from any insurance carrier, you must retain evidence of your attempts to obtain such notice provisions in your Servicing File.

**501.01B Blanket and Other Policies Covering Multiple Properties**

**Requirements**

The coverage provided by a blanket policy must be as good as, or better than, a single property insurance policy. The Property must be listed and identified in the policy or associated schedules.

**Guidance**

A blanket policy includes

- blanket policies,
- blanket programs,
- first loss limit policies,
- first loss policies,
- layered programs,
- master policies,
- master programs,
- property programs,
- pooled insurance,
- pooled programs,
- shared limit policies, and
- similar programs insuring multiple locations under the same insurance policy.

Blanket policies are acceptable as long as

- all other requirements are met, and
- the Terms and Conditions endorsement does not reduce, limit, or exclude any required coverage.

When evaluating a blanket policy or multiple property policies, you should consider the following:

- Are the required coverages adequate for the subject property or properties?
- If the blanket policy limits are less than 100% of the total insurable value of the covered properties, is the shortfall warranted by high policy limits and geographic dispersion?
- If the blanket policy covers high catastrophic exposure in a geographically concentrated area, is the limit adequate for the exposure, or should the Borrower obtain additional coverage?

Programs insuring properties that are not under common ownership with the Borrower or a Key Principal, Principal, or Affiliate of the Borrower, or managed by the same property management company may provide evidence of insurance that appears to be a standard layered program.

You should look for red flags signaling that a program may not be a standard layered program, such as:

- a significant savings in premium when a Borrower adds the Property to an existing policy; or
- a large, rounded coverage limit for property insurance.

You may confirm common ownership through an insurance broker or agent. If the covered properties are not related by ownership or under the same property management, you are expected to evaluate the insurance administrator, considering factors such as the acceptability of its business practices, possible payment of claim by the administrator, years in business, etc. This evaluation is in addition to the other analysis expected for blanket policies.
Operating Procedures

You must document your analysis of any blanket policy in your Servicing File.

501.01C Insurance Carrier Rating

Requirements

All property and liability insurance carriers for new policies must:

- if rated by A.M. Best Company, have a
  - general policyholder rating of A- or better, and
  - financial size category of VI or better; or

- if rated by Demotech, Inc., have a
  - Financial Stability Rating of A or better, and
  - policyholder surplus of at least $40 million.

For any existing insurance policy (at origination or afterward), the carrier must:

- if rated by A.M. Best Company, have a
  - general policyholder rating of B++ or better, and
  - comply with the rating requirements for new policies at renewal; or

- If rated by Demotech, Inc., comply with the rating requirements for new policies.

This rating requirement does not apply to the following coverages:

- state wind pools or state funds, if they are the only coverages that can be obtained for a Property; or

- flood insurance issued by the National Flood Insurance Program (NFIP) or written by companies approved under the NFIP’s Write Your Own program.

Per the Loan Documents, you must require the Borrower to immediately obtain replacement coverage with a compliant carrier, even if the policy has not yet expired, if a carrier is downgraded below

- B++, if rated by A.M. Best Company, or
- A, if rated by Demotech, Inc.
Guidance

A new policy is one that is not already in force, and is most common for an acquisition. An existing policy is most common for a refinance or when the Property is added to a policy that the Borrower already has in force.

Operating Procedures

If a carrier providing an existing insurance policy has an A.M. Best Company rating below A-, you must retain evidence of the insurance carrier’s rating in your Servicing File until the policy is renewed. You must also monitor it on a quarterly basis to confirm that the rating is not downgraded below B++.

501.01D Term

Guidance

Policies should have a term of at least 12 months. For new Mortgage Loans, a Property may be added mid-term to an existing 12-month policy.

You may accept a policy term of less than 12 months if:

- when it expires, the policy will be renewed for at least 12 months; and
- the shorter-term is not because of non-renewal or cancellation by the carrier.

501.01E Payment of Premium

Requirements

Premises for all required insurance policies must either be:

- paid in full annually; or
- payable in installments, for which you have receipts confirming timely payment.

Premium financing is permitted if the financing agreement has no negative impact on you, Fannie Mae, or the Mortgage Loan collateral, and does not include any conditions that could prevent you or Fannie Mae from receiving the insurance proceeds. If the Borrower finances premiums, you must review a copy of the financing agreement and confirm that timely payment of each premium has been made.
You should attempt to reinstate the annual payment of premiums at renewal of any policy.

Any financing agreement should include a requirement that you receive a notice of cancellation for any nonpayment of premium.

Operating Procedures

For Mortgage Loans where no insurance escrows are being collected, you must obtain evidence annually that all policies have been paid in full.

If the Borrower finances premiums, you must retain a copy of the financing agreement in your Servicing File. You must also keep receipts confirming timely payments.

Evidence of Insurance

**Requirements**

You must have temporary or permanent evidence of insurance at the closing of the Mortgage Loan and by each renewal date.

You must have permanent evidence of insurance within 90 days of delivering the Mortgage Loan to Fannie Mae and each renewal date.

**Guidance**

For temporary evidence of insurance, the following forms are acceptable:

- ACORD 28 – Evidence of Commercial Property Insurance (most recent version or, if applicable, the state-approved form), combined with ACORD 25 – Certificate of Liability Insurance;
- ACORD 75 – Insurance Binder;
- MBA Evidence of Insurance – Commercial Property Form; and
- if an ACORD certificate is not available, a joint letter from the Borrower and its licensed insurance broker/agent certifying that all coverages, terms, and conditions meet the requirements.

For permanent evidence of insurance, the following forms are acceptable:

- An original or duplicate copy of the insurance policy.
- For Properties securing Mortgage Loans with a UPB of $10 million or less, the MBA Evidence of Insurance – Commercial Property Form.
- For Properties securing a Mortgage Loan with a UPB in excess of $10 million, or for blanket policies with multiple layers, duplicate copies of the primary insurance policies, which should:
• include a letter (signed and dated on company letterhead) from an individual authorized to execute evidence of insurance on behalf of the insurance carriers issuing each policy; and
• state that all policies follow the same terms, conditions, and exclusions as the primary policy, with any differences specified.

For NFIP flood insurance, the Policy Declaration page.

The following are not acceptable forms of permanent evidence:
• insurance policy declarations pages (except for an NFIP policy);
• single policy endorsement;
• insurance binders; and
• certificates of insurance.

If an MBA Evidence of Insurance - Commercial Property Form is used, it should:
• be the most recent version or, if applicable, the state-approved form;
• be completed in its entirety;
• have an original signature of an individual authorized to execute the Evidence of Insurance on behalf of the insurance carriers issuing each policy; and
• in states where the form is filed and approved, be on the appropriate state form.

Some insurance carriers use boilerplate policies that do not change from year to year. In such cases, you should keep a specimen kit or library of such policies and endorsements and may place only the renewal Declarations Page in your Servicing File as permanent evidence along with a list of endorsements.

501.01G Insurance Compliance and Data

Operating Procedures

Permanent evidence must be retained in your Servicing File. Policies must be collected annually.
Servicing File:

- name of carrier, all insured parties, and the Borrower;
- coverage amount;
- deductible amount(s);
- policy term;
- description of property insured; and
- coinsurance percentage, if applicable.

**501.01H  Post Closing Insurance Exceptions**

✅ **Requirements**

You must determine compliance with this Section on an annual basis. Any request for an exception to the insurance requirements after origination and delivery of the Mortgage Loan must be submitted on the Multifamily Exception Review Form – Insurance (Form 4638) through the MAMP. All supporting documentation must be included with the submission.

≪ **Guidance**

Insurance exceptions granted by Fannie Mae are for the entire term of the Mortgage Loan, unless otherwise specified in the approval.

**501.02  Property Insurance**

**501.02A  Minimum Coverage Amounts**

✅ **Requirements**

Each Property must have property insurance throughout the term of the Mortgage Loan. Coverage must be written on a Special Causes of Loss Form.

The coverage amount must be at least

- 100% of estimated insurable value for single-building Properties, and
- 90% of estimated insurable value for multiple-building Properties.

Coinsurance cannot exceed 90%.

The maximum deductible amount is based on the total insurable values of the Property insurance policy.
<table>
<thead>
<tr>
<th>If the insurable value is...</th>
<th>The maximum deductible amount per occurrence is...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $5 million</td>
<td>$15,000</td>
</tr>
<tr>
<td>Equal to or greater than $5 million, but less than $50 million</td>
<td>$25,000</td>
</tr>
<tr>
<td>Equal to or greater than $50 million, but less than $100 million</td>
<td>$100,000</td>
</tr>
<tr>
<td>Equal to or greater than $100 million</td>
<td>$250,000</td>
</tr>
</tbody>
</table>

These deductible amounts apply to all insurance coverages required by Part II, Chapter 5: Property and Liability Insurance, Section 501.03: Catastrophic Risk Insurance and Part II, Chapter 5: Property and Liability Insurance, Section 501.04: Liability Insurance, unless a different amount is specified.

**Guidance**

100% coinsurance with the Agreed Value endorsement is acceptable. Renewal of the Agreed Value endorsement is not automatic.

**501.02B  Business Income (including Rental Value) Insurance**

**Requirements**

Each Property must have business income insurance (including rental value insurance), covering all perils, including windstorm, flood, earthquake, and terrorism.

Coverage must be based on either

- Actual Loss Sustained for 12 months, or
- Effective Gross Income for the most recent annual reporting period.

The maximum deductible for business income insurance cannot exceed the greater of the maximum deductible for the property insurance policy or a waiting period of up to 72 hours.

Coverage for a Mortgage Loan with a UPB of $25 million or more must include a 90-day Extended Period of Indemnity option.

**Guidance**

If a type of coverage is required but is excluded by the property insurance...
policy (e.g., ordinance or law), and the Borrower purchases the coverage separately, or adds it to the property insurance policy, you should confirm that business income insurance is also provided for the covered peril in order to satisfy the requirement.

501.02C Ordinance or Law Insurance

☑️ Requirements

Each Property that is non-conforming under any current land use law or was constructed 25 years or more before closing must have ordinance or law insurance. In this case, the Property must have:

- Coverage A: Loss of Undamaged Portion, in an amount equal to
  - 100% of the insurable value of the Property, less the damage threshold specified by the local building ordinance, or
  - 50% of the insurable value, if the local ordinance does not specify a threshold;

- Coverage B: Demolition/Debris Removal Cost, in a minimum amount of 10% of the insurable value of the Property; and

- Coverage C: Increased Cost of Construction, in a minimum amount of 10% of the insurable value of the Property.

➡️ Guidance

A Property is non-conforming if it cannot be rebuilt as is under current law. Examples of land use laws include building, zoning, energy management, green, and similar ordinances.

Rebuilding as is refers to the ability to build the same square footage within the same building footprint without increasing the non-conformity, as defined by the local ordinance. You should determine the feasibility of rebuilding within any time frame required by the ordinance.

Ordinance and law insurance is needed for an older Property, even if it is legally conforming under current zoning law, because the cost of construction will likely be significantly higher due to changes in building codes and construction requirements.

For example:

- When a Property has an insurable value of $10 million and the damage threshold of the local building ordinance is 75%, $2.5 million is the amount of coverage required for Coverage A. If A, B, and C are combined, then the required amount is $2.5 million plus $2 million, or $4.5 million total.
When Coverages A, B, and C are combined, the minimum limit is the Coverage A amount plus 20% of the insurable value of the Property.

When Coverages B and C are combined, the minimum limit is 20% of the insurable value of the Property.

Properties that closed before February 3, 2014 are not required to have ordinance or law coverage if they are Legal Conforming and have a build date of 25 years or more before closing.

501.02D  Boiler and Machinery / Equipment / Mechanical Breakdown Insurance

☐ Requirements

Each Property located in a state that regulates centralized HVAC boiler, water heater, or other high-pressure vessels must have boiler and machinery insurance if it has such equipment.

The coverage amount must be at least 100% of the insurable value of each building that houses the equipment.

501.02E  Builder's Risk Insurance

☐ Requirements

If property insurance coverage is excluded during construction or significant renovation or restoration, the Property must have builder's risk insurance during such activity.

The coverage amount must be at least 100% of the completed value, on a non-reporting basis.

501.02F  Fidelity Bond / Crime Insurance

☐ Requirements

Each Property owned by a Cooperative Organization must have fidelity bond/crime insurance in an amount covering scheduled Cooperative Maintenance Fees for at least 3 months.

The deductible for fidelity bond/crime insurance may not exceed $25,000.

501.02G  Regional Perils Insurance

☐ Requirements

If a Property is in an area prone to geological phenomena, the property insurance coverage must include those phenomena.
The coverage amount must be 100% of the insurable value.

Guidance

Examples of geological phenomena include sinkhole, mine subsidence, volcanic eruption, and avalanche.

501.03 Catastrophic Risk Insurance

501.03A Generally

Requirements

If a Property is in an area prone to Catastrophic Events, it must have the coverages required by this Section 501.03.

501.03B Windstorm Insurance

Requirements

The Property must have separate windstorm insurance if the Special Causes of Loss Form excludes any type of wind-related Catastrophic Event.

The coverage amount must be at least 100% of the insurable value. This valuation may not rely solely on Probable Maximum Loss (PML) calculations.

The deductible amount may not exceed the greater of

- 10% of the insurable value,
- the applicable maximum amount in Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts, or
- for the business income insurance (including rental value insurance), 15 days of income or equivalent.

Guidance

A state insurance plan, state-managed windstorm, or beach erosion insurance pool is acceptable for catastrophic windstorm coverage (i.e., not for non-catastrophic windstorm or other perils), if no other catastrophic windstorm coverage is available.

501.03C Flood Insurance

Requirements
The Property must have flood insurance if any income-producing Improvements or any non-income producing Improvements that support amenities are located in an SFHA Zone A or Zone V.

The coverage amount must be 100% of the insurable value of

- the first 2 floors above grade and any Improvements below grade, plus
- all Fixtures and Goods located on the first 2 floors above grade and/or below grade (as defined in the Security Instrument).

The deductible amount may not exceed the greater of

- 5% of the insurable value of the Property,
- the applicable maximum amount in Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts, or
- for business income insurance (including rental value insurance), 15 days or equivalent.

If the coverage available under the NFIP is not sufficient to meet the requirements set forth above, then the Borrower must have excess flood insurance or difference in conditions (DIC) insurance that either

- covers the difference, up to the required coverage amount, or
- if the required coverage amount is not economically feasible, covers an amount that you determine is reasonable, given the exposure.

During the Letter of Map Amendment (LoMA) process only NFIP insurance is required. The maximum term for NFIP insurance during the LoMA process is 12 months.

If any Improvements are reclassified as within an SFHA Zone A or Zone V after you deliver the Mortgage Loan, you must require the Borrower to obtain compliant flood insurance.

**Guidance**

Flood insurance is not required if only unimproved portions of the Property, or non-income producing Improvements that do not support amenities at the Property, are located in an SFHA. Improvements that support amenities include structures such as clubhouses and pool houses. Improvements that do not support amenities are structures such as sheds, pump houses, and storage buildings. Business income insurance is not required for non-income producing Improvements.

Keep in mind that conditions may change over time and flood zones may be remapped. In certain cases, you or Fannie Mae may require flood insurance.
for Improvements outside of an SFHA Zone A or V, but within an area designated by FEMA as Zone X or Zone D (for example, if a Property is in an area subject to flooding due to storm water, or within close proximity to an SFHA boundary).

When determining whether excess flood insurance or DIC insurance is economically feasible, you may consider a DSCR reduction of 10 or more basis points as a reasonable measure or guide.

Before determining a lesser amount of excess flood insurance or DIC Insurance, or not requiring such coverage, you should have the Borrower provide you with at least 3 quotes or declination letters, and determine whether the Borrower is attempting to avoid purchasing coverage by applying to companies that do not write flood insurance or give artificially high quotes. If you are provided with a combination of quotes and declinations, quotes should be used to determine feasibility of coverage, and a limit of coverage that is economically feasible should be secured.

An acceptable deductible for DIC insurance is the coverage limit of the underlying NFIP policy.

You should obtain flood zone determinations from qualified third-party flood-zone determination firms, and exercise care and sound judgment when selecting the firm. You should require the determination firm, and any monitoring company (if different), to

- notify you whenever flood insurance is or becomes required, and
- continue monitoring after any servicing transfer.

**Operating Procedures**

You must obtain life-of-loan monitoring for each Property from a third-party flood-zone determination firm.

You are required to complete the most recent version of the Standard Flood Hazard Determination form issued by FEMA to determine whether any of the Improvements are located in an SFHA. You must keep a completed copy of this form in your Servicing File, including a signed copy of the Notice to Borrower of Special Flood Hazard and Federal Assistance (included in the Flood Determination Certificate).

If you permitted a reduction in the amount of excess flood insurance or DIC insurance, your analysis and related documentation supporting the economic feasibility and the amount of the reduction must be

- included in your Servicing File, and
- submitted via the MAMP.
501.03D  Earthquake Insurance

☑ Requirements

The Property must have earthquake insurance if required by Fannie Mae based on the Seismic Risk Assessment.

The coverage amount must be at least 100% of the insurable value.

The deductible amount may not exceed the greater of

- 10% of the insurable value, or
- the applicable maximum amount in Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts.

501.03E  Terrorism Insurance

☑ Requirements

Each Property must have terrorism insurance for property damage/casualty and liability exposures, unless

- it secures a Mortgage Loan with a UPB of less than $25 million, and
- you performed a risk assessment, and it indicated no or low terrorism risk.

The coverage amount must be at least 100% of the insurable value of the Improvements.

The deductible amount may not exceed the greater of

- 20% of the insurable value, or
- the applicable maximum amount in Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts.

Guidance

Your risk assessment should consider the Property location in relation to potential terrorist targets, such as tourist attractions, mass transportation facilities, urban areas, and government buildings. You should also consider concentrations of risk and overall exposures.

Operating Procedures

You must retain a copy of your risk assessment in your Servicing File.
☑ Requirements

Each Property and Borrower must be covered by liability insurance for bodily injury, Property damage, and personal injury throughout the term of the Mortgage Loan.

501.04A Commercial General Liability Insurance

☑ Requirements

The general liability insurance coverage amount must be at least
- $1 million per occurrence/$2 million general aggregate limit, plus
- excess/umbrella insurance as follows:

<table>
<thead>
<tr>
<th>If the number of stories in the building is...</th>
<th>The minimum excess/umbrella insurance coverage is...</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 4</td>
<td>$2 million</td>
</tr>
<tr>
<td>5 10</td>
<td>$5 million</td>
</tr>
<tr>
<td>11 20</td>
<td>$10 million</td>
</tr>
<tr>
<td>Over 20</td>
<td>$25 million</td>
</tr>
</tbody>
</table>

The maximum deductible amount is based on the total insurable values of the Property insurance policy.

<table>
<thead>
<tr>
<th>If the insurable value is...</th>
<th>The maximum deductible amount per occurrence is...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $5 million</td>
<td>$40,000</td>
</tr>
<tr>
<td>Equal to or greater than $5 million, but less than $50 million</td>
<td>$50,000</td>
</tr>
<tr>
<td>Equal to or greater than $50 million, but less than $100 million</td>
<td>$125,000</td>
</tr>
<tr>
<td>Equal to or greater than $100 million</td>
<td>$275,000</td>
</tr>
</tbody>
</table>

You may satisfy the maximum deductible amounts by any combination of the deductibles on the primary liability insurance and excess/umbrella insurance policies.

The maximum deductibles apply to all liability insurance.
Guidance

You may satisfy the insurance coverage requirements with any combination of primary liability insurance and excess/umbrella insurance coverage, so long as they add up to the sum of the required minimum limits.

You may satisfy the insurance coverage requirements for excess/umbrella insurance when the coverage limit meets the requirement for the location with the most stories.

501.04B Professional Liability Insurance

Requirements

If any level of healthcare is provided at a Seniors Housing Property, it must have professional liability insurance covering professional errors and omissions, medical malpractice, and all types of abuse.

The coverage amount must be at least

- $1 million per occurrence/$2 million general aggregate limit, plus
- excess/umbrella insurance as follows:

<table>
<thead>
<tr>
<th>If the number of licensed beds is...</th>
<th>The minimum excess/umbrella insurance coverage is...</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 100</td>
<td>$2 million</td>
</tr>
<tr>
<td>101 500</td>
<td>$5 million</td>
</tr>
<tr>
<td>501 1,000</td>
<td>$10 million</td>
</tr>
<tr>
<td>Over 1,000</td>
<td>$25 million</td>
</tr>
</tbody>
</table>

For a Property with Assisted Living beds, Independent Living beds are not counted when determining the minimum coverage limit.

When general liability insurance and professional liability insurance coverages are combined under an excess/umbrella insurance policy, the required coverage is the higher minimum limit of the 2 underlying coverages.

The maximum deductible for professional liability insurance must not exceed the applicable maximum amount in Part II, Chapter 5: Property and Liability Insurance, Section 501.04A: Commercial General Liability Insurance.

Guidance

When using a claims-made policy, you should consider whether an adequate “retroactive date” is in place. A retroactive date provides coverage for acts...
that took place before a specified date – usually before the effective date of
the current policy. A retroactive date of 3 - 5 years before the current
policy’s effective date is common.

If the Borrower changes carriers during the term of the Mortgage Loan, the
addition of tail coverage or an extended reporting period endorsement,
which extends coverage after the cancellation or termination of a claims-
made policy, is important. These provisions help ensure that there is no
lapse in coverage.

You may satisfy the insurance coverage requirements with any combination
of primary liability insurance and excess/umbrella insurance coverage, as
long as they add up to the sum of the required minimum limits.

You may satisfy the insurance coverage requirements for excess/umbrella
insurance when the limit meets the requirement for the covered location with
the most beds.

501.04C Risk Retention Groups and Captive Insurance

☑ Requirements

Only a Seniors Housing Property may use liability insurance from a Risk
Retention Group or a Captive Insurer. Captive Insurance is only acceptable for

- professional liability insurance, and
- general liability insurance when combined with professional liability
  insurance.

Any Risk Retention Group or Captive Insurer must have a rating of at least

- A- / VI from A.M. Best Company, or
- A from Demotech, Inc., with policyholder surplus of at least $40 million.

You must get an annual report on the Captive Insurer from an independent
firm that is:

- familiar with captive domiciles, operations, and insurance structures;
- experienced analyzing captive actuarial studies and audited financial
  statements; and
- unrelated to the Captive Insurer, you, the Borrower, Guarantor, or any of
  its sponsors or Principals.

The firm’s report must include:

- an analysis of the Captive Insurer’s annual independent actuarial study;
an actuarial memorandum/reserve analysis provided by the Captive Insurer;

a review of the annual independent audited financial statements for the Captive Insurer; and

a conclusion regarding the Captive Insurer’s operations and financial viability.

**Guidance**

Captive Insurance and similar arrangements have lower capitalization requirements than traditional insurance companies, and are usually not rated by a recognized rating agency.

In order to be rated, a Captive Insurer will typically provide the following to a rating provider:

- detailed updated accrual runs;
- updated loss history (minimum 5 years, brief summary, and detailed list);
- current updated audited financial statements for the past 2 years:
  - for the captive, audited financials typically are on a stand-alone basis (if audited are not available, then unaudited financials are acceptable); and
  - for the parent company’s, the financials should be on a consolidated basis;
- financials, audited or unaudited, from the captive and parent company for the most recent quarter;
- description of any changes from previous years with applicable updated resumes of all officers;
- description of any reinsurance and/or fronting company, if applicable;
- description of internal claims management procedures;
- status of market update;
- description of funding sources;
- business plan;
- projected volume over the next year;
- actuarial memorandum/reserve analysis as provided by the Captive Insurer;
- state insurance examination report or, if a report is not available,
  - date of examination,
description of any adverse findings, and
steps taken to remediate; and

exposure to the Captive Insurer or Risk Retention Group, based on the
UPB of loans made to date.

501.04D  Workers’ Compensation Insurance

☑ Requirements

The Property must have workers’ compensation and employer’s liability
insurance (including terrorism coverage), if required in the state where the
Property is located.

The coverage amount must equal or exceed:

the statutory limits for injured employees; plus
the greater of

- employer’s liability limits of $1 million per occurrence for bodily injury,
  $1 million per occurrence and $1 million aggregate for employee
disease, or
- any underlying limit required by the excess/umbrella insurance carrier.

501.04E  Directors’ and Officers’ Liability Insurance

☑ Requirements

Each Property owned by a Cooperative Organization must have directors’
and officers’ liability insurance.

The coverage amount must be at least $1 million per occurrence.

501.04F  Commercial Auto Liability Insurance

☑ Requirements

The Borrower must have commercial auto liability insurance for any motor
vehicles that are

- owned or hired by the Borrower, or
- used by anyone for business on behalf of the Borrower or the Property.

The coverage must include personal injury protection required by the state
where the Property is located.
The coverage amount must be the greater of

- $1 million per occurrence, or
- any underlying limit required by the excess/umbrella insurance carrier.

501.05 Small Loans

Requirements

All insurance requirements of this Chapter apply to Small Mortgage Loans, except as noted in this Section.

501.05A Permanent Evidence

Guidance

If you are unable to obtain the original or a duplicate copy of the insurance policy or the MBA Evidence of Insurance, the Borrower’s insurance agent or broker may deliver a written statement that it has reviewed the policy and confirmed that it meets the following requirements:

- Named insured is listed as Fannie Mae and the Borrower.
- Mortgagee Clause meets Fannie Mae's requirements.
- Each insurance carrier has a compliant A.M. Best Company or Demotech, Inc. rating.
- Policy term is 12 months.
- Cancellation Clause meets Fannie Mae's requirements.
- Special Coverage Form applies.
- No Coinsurance or, if there is Coinsurance, an Agreed Value Endorsement is attached to the policy.
- Limits of insurance are included for all required coverages, including any sub-limits or other restrictions (such as catastrophic limits) that may differ from the standard coverage amount.
- A Statement of Values is included where applicable.
- Coverage is subject to Replacement Cost valuation.

501.05B Excess/Umbrella Insurance

Requirements

The minimum excess/umbrella insurance is $1 million if
no building on the Property has more than 4 stories, and
the Mortgage Loan has a UPB of $3 million or less.

501.05C  Terrorism Insurance

Guidance

Terrorism insurance is not required for Small Mortgage Loans.

Section 502  Environmental Matters

Guidance

Any environmental conditions or risks impacting the Property should be fully understood and considered in the underwriting.

502.01  Environmental Site Assessments

Requirements

You must comply with the Environmental Due Diligence Requirements (Form 4251), which include obtaining a Phase I Environmental Site Assessment (Phase I ESA) of the entire Property. The Phase I ESA must:

be performed per the instructions in Form 4251, including meeting the current requirements of ASTM E1527;

be prepared by an environmental professional as that term is defined in 40 C.F.R. § 312.10 (an Environmental Professional);

identify all environmental conditions and risks that may potentially impact resident safety, marketability, or value of the Property; and

clearly identify how to properly mitigate those conditions and risks, including where applicable,

- the Environmental Professional’s recommendations regarding additional investigation, or requirements of government authority or regulatory agency, or
- action to remediate or abate any Recognized Environmental Condition (REC)/Controlled Recognized Environmental Condition (CREC), as those terms are defined in ASTM E1527.

If the Phase I ESA identified any RECs/CRECs, you must obtain Fannie Mae's approval before Rate Lock.
Guidance

You may rely on a preliminary or draft Phase I ESA to obtain a Commitment.

502.02 Lender’s Responsibilities

☑ Requirements

You must:

- Obtain all investigations recommended or indicated by the Phase I ESA.
- Conduct a thorough review and analysis of the Phase I ESA.
- Provide the Environmental Professional with all available prior Phase I ESAs, investigations, and any relevant and readily available environmental materials.
- Provide the appraiser with any documentation from the Phase I ESA that is necessary to accurately assess the value of the Property.
- Identify whether the state where the Property is located has an environmental “super-lien” statute and, if so, confirm that conditions on the Property are not likely to result in the imposition of such a Lien.
- Disclose to Fannie Mae your knowledge of any actual or suspected environmental conditions affecting the Property, whether or not disclosed in the Phase I ESA.
- Ensure that any required Operations and Maintenance Plans (O&M Plans) are obtained and located on the site throughout the loan term.
- Assess the Borrower’s ability to carry out any O&M Plan. A Mortgage Loan is ineligible for purchase if the Borrower or its agents are not financially or organizationally capable of satisfying the requirements of the O&M Plan.
- Evaluate the potential risk of loss and liability to the Property, the Borrower, you, or Fannie Mae posed by any
  - REC/CREC,
  - Business Environmental Risk, or
  - other environmental condition, whether or not disclosed in the Phase I ESA.

If you become aware of any REC/CREC, you must:

- Obtain a Remediation Plan from the Borrower that
  - is prepared by an Environmental Professional, as required by Form 4251,
- will protect the health and safety of the residents and bring the Property into regulatory compliance, and
- includes a cost estimate and schedule for completing the work.

Add the estimated cost of the Remediation Plan to the Completion/Repair Escrow requirement of the Loan Documents.

**Guidance**

The amount funded into the Completion/Repair Escrow on the Mortgage Loan Origination Date should be at least 125% of the estimated cost of the Remediation Plan.

### 502.03 Environmental Indemnity Agreement

**Requirements**

You must consider revisions to the Environmental Indemnity Agreement (Form 6085) to protect you and Fannie Mae from liability associated with any REC/CREC (including the cost to investigate/remediate any such condition) and any violation of Environmental Laws by the Borrower. You must document your evaluation of potential revisions, including at a minimum, whether the following revisions are appropriate:

- additional representation and warranty where the Borrower disclaims responsibility for any REC/CREC, if appropriate and accurate;
- additional covenant(s) requiring
  - implementation of the Remediation Plan,
  - compliance with any Environmental Activity and Use Limitations and/or institutional or engineering controls, and
  - maintenance of Borrower eligibility for applicable liability protection status;
- specifically identifying any liability associated with the REC/CREC in the indemnification provisions; and
- other terms and conditions as may be required based on Fannie Mae environmental counsel review.

### Section 503 Seismic Risk

#### 503.01 Seismic Hazard and Risk Factors
Guidance

Any seismic risk impacting the Property should be understood before the Commitment Date. Seismic risk is assessed by analyzing the PGA at the location of the Property.

After purchase of the Mortgage Loan, no additional seismic risk evaluation is required.

Requirements

Each Property must have an acceptable level of seismic risk.

A Mortgage Loan is ineligible for purchase if the Property has

- a PGA equal to or greater than 0.15g, and
- 1 of these Structural Risk Factors:
  - an unreinforced masonry building that has not been seismically retrofitted; or
  - a building constructed on a slope with an angle exceeding 30 degrees (a 50% slope).

If the Property is located in a High Seismic Risk area, you must complete Form 4099.C. If a Structural Risk Factor is present, you must also obtain a Seismic Risk Assessment (SRA).

503.02 Seismic Risk Assessment (SRA)

Requirements

You must obtain a Level 1 SRA dated within 12 months before the Commitment Date for any Property with one of the Structural Risk Factors listed in Form 4099.C.

The SRA must:

- include estimates for the Scenario Expected Loss (SEL) and the Scenario Upper Loss (SUL);
- use a 10% probability of exceedance in a 50-year period;
- meet ASTM seismic standard professional qualifications;
include structured data per Seismic Risk Assessment Data Supplement (Form 4093); and
include a report narrative.

Guidance

For Small Mortgage Loans, the SRA field investigation may be performed by a PCA consultant or field observer if that professional has at least 2 years of experience performing seismic risk assessments of buildings.

A new SRA is not required for Supplemental Mortgage Loans; you may rely on the original underwriting seismic analysis.

503.03 Acceptable Levels of Seismic Risk

Guidance

The SEL percentage of the Property and the building stability assessment will determine whether the seismic risk is acceptable.

Requirements

The Property’s seismic risk is acceptable if all income-producing Improvements or any non-income producing Improvements that support amenities

- comply with this Section 503.03,
- have an SEL of 20% or less, and
- meet the current building stability requirements of ASTM E2026.

A Mortgage Loan is ineligible for purchase if it is secured by a Property that has any Improvements with an SEL greater than 40%.

Guidance

Your analysis should include:

- a Level 1 SRA, including Appendix X4 (ASTM E2557);
- your analysis of the seismic issues and recommendation, describing in detail
  - the severity and pervasiveness of the conditions driving the SEL and stability issues,
  - the risks presented to building stability, building damageability, site
stability, and life safety, and

- the recommended retrofit or remediation requirements;
- a retrofit letter or the Borrower’s retrofit plan, timetable, and cost estimate;
- Form 4099.C; and
- a minimum of 6 Property photos, including
  - photos of those areas significant to the seismic calculation or stability issue, and
  - elevation views of any Improvements having an SEL over 20% or a stability issue.

### 503.04 Seismic Retrofit Ordinances

#### Requirements

If a Property is required to be retrofitted under any law, regulation, or ordinance,

- the SRA must describe a proposed retrofit plan, including associated costs, and
- the retrofit must be completed before the Commitment Date.

### 503.05 Seismic Risk Mitigants

#### Guidance

For any Property where any Improvements have an SEL greater than 20% or a building stability issue, you should consider the following to mitigate seismic risk:

- perform a seismic retrofit sufficient to resolve all stability issues and reduce the SEL of all Improvements to 20% or below; and
- obtain earthquake insurance coverage per Part II, Chapter 5: Property and Liability Insurance, Section 501.03D: Earthquake Insurance.

Earthquake insurance does not mitigate building collapse risk.
Part III  Products and Features

Chapter 1  Student Housing Properties

Section 101  Description

101.01  Student Housing Property

Requirements

- A Student Housing Property is a multifamily rental property in which 40% or more, but less than 80%, of the units are leased to undergraduate or graduate students.

- A student with sufficient income to pay rent does not count toward the student unit concentration required for a Student Housing Property.

101.02  Dedicated Student Housing Property

Requirements

A Dedicated Student Housing Property is a multifamily rental property in which 80% or more of the units are leased to undergraduate or graduate students.

Guidance

A Dedicated Student Housing Property typically:

- caters to a student population due to its location;
- was specifically constructed as a student property or, although built as conventional multifamily housing, is now leased primarily to students; or
- is not readily rentable as conventional multifamily housing.

Section 102  Generally

Guidance

When underwriting a Student Housing Property or Dedicated Student Housing Property, you should consider the following questions:

- What percentage of units are leased to graduate students versus undergraduate students?
- Has the ratio of student to non-student tenants changed over the past several years?
Is the Property marketable to non-student tenants, given the size, mix, and quality of the units?

What is the rent structure? For example, are rents charged on a by unit basis or by bed basis?

Who are the parties to the lease agreements? For example, are they typically signed by 1 tenant or all tenants, and/or co-signed by parents?

What is the typical lease term?

What is the enrollment outlook at the college/university?

What is the student composition (i.e., full-time versus part-time) at the college/university?

What are the current and forecasted supply and demand for student housing at the college/university? Will there be any college/university-sponsored construction?

What is the Key Principal's experience with operating Student Housing Properties and Dedicated Student Housing Properties?

What is the Property’s proximity to campus? Can students walk to class and other campus locations?

Is the Property conveniently located to a college/university-sponsored transportation line?

Is the Property subject to a Ground Lease? If so, what are the structure and terms of the Ground Lease?

**Requirements**

If a Student Housing Property or Dedicated Student Housing Property is subject to a master lease, you must complete the Master Lease Review Checklist (Form 6480).

### Section 103  Dedicated Student Housing Property

<table>
<thead>
<tr>
<th>103.01</th>
<th>Eligible Property Characteristics</th>
</tr>
</thead>
</table>

**Requirements**

You must ensure that a Dedicated Student Housing Property:

- caters to a campus with at least 10,000 students, the majority of whom are full-time students;

- is
  - located within 2 miles of a campus boundary line, as determined by the local municipality, or
near a college/university-sponsored transportation line; and

- has operated for at least 1 full school year (i.e., August/September through April/May).

**Guidance**

The Dedicated Student Housing Property should have stabilized occupancy no later than the month preceding the start of the first semester/quarter of the second full school year.

### 103.02 Ineligible Property Characteristics

**Requirements**

Fannie Mae will not purchase any Mortgage Loan secured by a Dedicated Student Housing Property that offers food service.

### 103.03 Residential Leases

**Requirements**

You must ensure that at least 80% of the units in a Dedicated Student Housing Property are leased for a minimum term of 12 months.

**Guidance**

Each student lease agreement should have

- a parental guarantee of the rent, or
- student tenants with sufficient income or other documented financial means to pay the rent.

### 103.04 Properties on College/University Land

**Requirements**

You must ensure that a Dedicated Student Housing Property located on college/university land meets the following:

- the Borrower has control over all economic decisions affecting the Property (such as financing, leasing, and management);
- the Key Principal
  - has at least 5 years of operating experience with Dedicated Student

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Housing, and
- operates at least 1 other Dedicated Student Housing Property located on college/university land; and
- any Ground Lease complies with Part II, Chapter 1: Attributes and Characteristics, Section 104: Ground Leased Properties.

### 103.05 Additional Underwriting Documentation

**Requirements**

Your underwriting must include the following:
- name of the college/university and its current total enrollment;
- current enrollment percentages of full-time graduate and undergraduate students;
- location of the Property relative to the campus;
- whether the Property is part of the college/university’s housing referral program;
- details of the Property’s amenity package;
- whether the Property is convenient to a college/university-sponsored transportation line;
- detailed description of the related rental housing market, including
  - the amount of on-campus rental housing space occupied or available, and
  - any future on- or off-campus rental housing planned or under construction;
- percentage of the Property’s units pre-leased for the semester/quarter;
- percentage of the Property’s tenants who are students;
- percentage of the Property’s leases that have a term of less than 12-months;
- whether the Property is subject to a Ground Lease or master lease and, if so, the structure and terms of the lease; and
- whether parental guaranties are required for leases at the Property.

### Section 104 Underwritten NCF

**Requirements**
You must use the following table to calculate Underwritten NCF for Student Housing Properties and Dedicated Student Housing Properties.

For Dedicated Student Housing Properties, Fannie Mae will permit “by-the-bed” income and valuation for units occupied by students if the

- Property has at least 2 years of operating statements using that method, and
- rental rates are comparable to similar Student Housing Properties.

<table>
<thead>
<tr>
<th>REQUIRED UNDERWRITTEN NCF (STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Item</strong></td>
</tr>
<tr>
<td><strong>CALCULATION OF NET RENTAL INCOME</strong></td>
</tr>
<tr>
<td>1</td>
</tr>
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<tr>
<td>2</td>
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<tr>
<td></td>
</tr>
</tbody>
</table>
### REQUIRED UNDERWRITTEN NCF
(STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>MINUS</td>
<td>Premiums (e.g., identifiable additional income from furnished units or short term leases) and/or corporate premiums (e.g., identifiable additional income from corporate units, housekeeping services, etc.).</td>
</tr>
<tr>
<td>4</td>
<td>MINUS</td>
<td>Physical vacancy market rents for vacant units based on a current rent roll (multiplied by 12).(^1)</td>
</tr>
<tr>
<td>5</td>
<td>MINUS</td>
<td>Concessions - the aggregate amount of forgone residential rental income from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc.(^1)</td>
</tr>
<tr>
<td>6</td>
<td>MINUS</td>
<td>Bad debt - the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt.(^1)</td>
</tr>
</tbody>
</table>

**EQUALS** NET RENTAL INCOME (NRI)

---

1. The total of Items 4, 5, and 6 must equal or exceed the greater of:

- The difference between the trailing 12-month net rental collections (annualized) and GPR, or
- 5% of GPR.

If trailing 12-month NRI is not available, use a minimum 10% of GPR.

---

### CALCULATION OF OTHER INCOME
# REQUIRED UNDERWRITTEN NCF
## (STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 7    | PLUS     | Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must:  
• be stable;  
• be common in the market;  
• exclude one-time extraordinary non-recurring items; and  
• be supported by prior years.  
You must assess the individual month's other income within the prior full year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized).  
If there are fluctuations, you may use other income that exceeds the trailing 3-month other income (annualized), provided it does not exceed the highest 1-month other income used in the trailing 3-month other income calculation. |

## CALCULATION OF COMMERCIAL INCOME

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>PLUS</td>
<td>Actual income from leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases.</td>
</tr>
<tr>
<td>9</td>
<td>MINUS</td>
<td>10% of the actual commercial space income.²</td>
</tr>
<tr>
<td>10</td>
<td>PLUS</td>
<td>Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections.²</td>
</tr>
</tbody>
</table>

² If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.
### REQUIRED UNDERWRITTEN NCF
**STUDENT OR DEDICATED STUDENT HOUSING PROPERTY**

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>PLUS</td>
<td>Premiums&lt;sup&gt;3&lt;/sup&gt;, provided that the income must:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• be stable or increasing;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• be typical (in type and amount) in the market;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• be supported by prior years; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• not exceed the income generated over the most recent year or trailing 12-month period.</td>
</tr>
<tr>
<td>12</td>
<td>PLUS</td>
<td>Corporate premiums&lt;sup&gt;3&lt;/sup&gt;, provided that this income must:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• not be included for more than 10% of the Property's units;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• be stable or increasing;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• be typical (in type and amount) in the market;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• be supported by prior years; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• not exceed the income generated over the most recent year or trailing 12-month period.</td>
</tr>
<tr>
<td>13</td>
<td>PLUS</td>
<td>Laundry and vending, parking, and all other income per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.</td>
</tr>
</tbody>
</table>

**EQUALS** EFFECTIVE GROSS INCOME (EGI)

<sup>3</sup> Premium or corporate premium income cannot exceed 3% of GRI.

---

**CALCULATION OF OPERATING EXPENSES**
<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 14   | MINUS    | Line-by-line stabilized operating expenses.  
      |          | Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a  
      |          | • lease-up,  
      |          | • rehabilitation, or  
      |          | • other short-term positive or negative factors.  
      |          | Non-recurring, extraordinary expenses must not be included.  
      |          | You must assess:  
      |          | • past operating history;  
      |          | • the appraisers expense analysis;  
      |          | • all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and  
      |          | • the Borrower's budget (in the case of an acquisition).  
      |          | You must:  
      |          | • analyze historical operations at the Property; and  
      |          | • apply an appropriate increase over the prior years operations in determining an estimate. |
### REQUIRED UNDERWRITTEN NCF (STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 15   | MINUS    | Property management fee equal to the greatest of:  
|      |          | • 4% of EGI;  
|      |          | • actual property management fee (exclude any portion of a non-arms length property management fee that is subordinated to the Mortgage Loan); or  
|      |          | • market property management fee. |
| 16   | MINUS    | Real estate taxes per Item 17(b) in Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF). |
| 17   | MINUS    | Insurance equal to:  
|      |          | • the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or  
|      |          | • 110% of the current expense, for insurance policies with a remaining term less than 6 months. |
| 18   | MINUS    | Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis. |
|      | EQUALS   | UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI) |
| 19   | MINUS    | Replacement Reserve expense per Part III, Chapter 1: Student Housing Properties, Section 105: Replacement Reserve. |
|      | EQUALS   | UNDERWRITTEN NCF |

**Section 105** Replacement Reserve
105.01 Determining Replacement Reserve

- **Requirements**

  The minimum Replacement Reserve amount must equal the greater of
  
  - the amount calculated per Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve, or
  
  - $250 per unit per year.

105.02 Replacement Reserve Funding

- **Requirements**

  You must ensure full funding of the Replacement Reserve.
Chapter 2  Military Housing Properties

Section 201  Description

☐ Requirements

A Military Housing Property is any multifamily rental Property in which 40% or more of the units are occupied by individuals serving in, or employed by, the United States military.

Section 202  Ineligible Property Types

☐ Requirements

Fannie Mae will not purchase any Mortgage Loan secured by a Property located on a military base or installation.

Section 203  Generally

⇒ Guidance

When underwriting a Military Housing Property, you should consider:

- the stability of nearby bases, including deployment/base closing risks;
- historical performance of the Property during a deployment;
- any impact of military housing plans; and
- ability of the Property to be re-tenanted if the base closes.
Chapter 3  Moderate Rehabilitation Mortgage Loans

Section 301  Description

Requirements

A Moderate Rehabilitation Mortgage Loan is secured by a Property that will undergo at least $8,000 per unit of Rehabilitation Work. This Chapter does not apply to Properties with a lesser amount of rehabilitation work.

<table>
<thead>
<tr>
<th>Product Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Per Unit Cost for Rehabilitation Work</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rehabilitation Timing</th>
<th>The Rehabilitation Work must be completed as follows:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• items identified as Completion/Repairs in the PCA, per Part II, Chapter 4: Inspections and Reserves, Section 403: Completion/Repairs;</td>
</tr>
<tr>
<td></td>
<td>• Efficiency Measures qualifying for a Green Rewards Mortgage Loan, per Part III, Chapter 4: Green Mortgage Loans;</td>
</tr>
<tr>
<td></td>
<td>• if the Moderate Rehabilitation Mortgage Loan meets the requirements for using the Appraised Value on an as completed basis (per Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation), then the Rehabilitation Work may be completed after the 12-month period, but not later than 36 months after the Mortgage Loan Origination Date; and</td>
</tr>
<tr>
<td></td>
<td>• all other Rehabilitation Work, in a timely manner, but not later than 36 months after the Mortgage Loan Origination Date.</td>
</tr>
</tbody>
</table>
Product Description

<table>
<thead>
<tr>
<th>Completion/Repair Escrows</th>
<th>For Completion/Repairs identified in a PCA, if you require full or partial funding of a Completion/Repair Escrow, any higher funding amount you require above the estimated cost of Completion/Repairs must be funded.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mezzanine Financing</td>
<td>If the Rehabilitation Work is funded through Mezzanine Financing, you must also comply with Part III, Chapter 16: Mezzanine Financing and Preferred Equity.</td>
</tr>
</tbody>
</table>

Section 302 Underwriting

☑ Requirements

<table>
<thead>
<tr>
<th>For all Moderate Rehabilitation Mortgage Loans...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent or Income Restrictions</td>
</tr>
</tbody>
</table>
| Tenants, Guests, and Employees                | You must identify and mitigate any risks that the Rehabilitation Work may have during the renovation period on:

  • the health and safety of tenants, guests, or employees at any time, and
  • tenant displacement, and consider a relocation plan to minimize the effects of the displacement. |

Guidance

For all Moderate Rehabilitation Mortgage Loans, you should consider the following questions about the Rehabilitation Work:

- Are at least 60% of the budgeted improvements for interior unit upgrades?
- Are the projected cost estimates reasonable and sufficient to complete the entire scope of work?
- Does the budget, including the sources, uses, and schedule, provide adequate capital availability during the term of the work?
Are construction contracts guaranteed maximum price contracts that specify a completion date?

Given the scope of work, is a Completion/Repair Agreement or Rehabilitation Reserve Agreement (Form 6222.Mod), including a fully-funded Completion/Repair Escrow or Rehabilitation Reserve Account, appropriate?

Is the Sponsor's net worth and liquidity adequate to fund any unexpected cost overruns or operating deficits?

Does the Sponsor have demonstrated experience with the scope of work in the same or similar real estate markets?

Does the Borrower have sufficient economic incentive to complete the entire scope of work, including the feasibility of achieving projected post-rehabilitation rents sufficient to meet the target effective gross income?

Should a Key Principal execute a Completion Guaranty (Form 6018) that covers a portion or the entire scope of the Rehabilitation Work?

Should additional collateral (e.g., deposits into the Rehabilitation Reserve Account that are greater than the budget for the Rehabilitation Work, operating deficit reserve, Letter of Credit, etc.) be required?

Section 303 Rehabilitation Work Costing More than $20,000 Per Unit

303.01 Rehabilitation Work Evaluation Report

Requirements

If the Rehabilitation Work will cost more than $20,000 per unit and includes structural additions or modifications, then in addition to the other requirements in this Chapter, you must obtain a rehabilitation work evaluation report from either the PCA Consultant or a licensed architect or engineer.

This rehabilitation work evaluation report must include:

- a review and evaluation of the Property;
- the scope of Rehabilitation Work; and
- all significant construction contracts related to the Rehabilitation Work.

The report must also address, and you must evaluate, the following:

- Is the planned Rehabilitation Work structurally sound and physically feasible?
- Is the estimated cost of the Rehabilitation Work reasonable?
Will the work be completed within the Borrower’s scheduled time frame, but not later than 36 months after the anticipated Mortgage Loan Origination Date?

Will the work comply with all zoning, building, and fire code regulations?

Is there any additional work that is not already planned but that should be undertaken?

### 303.02 Rehabilitation Reserve Agreement

**Requirements**

You must ensure that the Borrower:

- Executes a Modifications to Multifamily Loan and Security Agreement (Rehabilitation Reserve – Moderate Rehabilitation) (Form 6222.Mod) that identifies the planned scope of the Rehabilitation Work on the Rehabilitation Work Schedule, including:
  - all of the Rehabilitation Work items,
  - estimated costs,
  - allowance for cost overruns, and
  - completion dates.

- Completes a budget for the planned Rehabilitation Work.

- Funds a Rehabilitation Reserve Account with the:
  - entire budgeted amount (or a higher amount that you require) for all Rehabilitation Work that is not identified as Completion/Repairs by the PCA; and
  - estimated cost (or a higher amount that you require per Part II, Chapter 4: Inspections and Reserves, Section 403: Completion/Repairs) for Completion/Repairs.

### Section 304 Supplemental Mortgage Loans

**Requirements**

Moderate Rehabilitation Supplemental Mortgage Loans must comply with Part III, Chapter 14: Supplemental Mortgage Loans, except as modified by this Section.
<table>
<thead>
<tr>
<th><strong>Supplemental Mortgage Loans</strong></th>
</tr>
</thead>
</table>
| **Origination Date** | • Must be originated within 36 months of the Moderate Rehabilitation Mortgage Loan's Origination Date.  
• Require no minimum period to elapse provided the minimum Rehabilitation Work is completed at the Property after origination of the Moderate Rehabilitation Mortgage Loan. |
| **Loan Term** | Must be coterminous with the Moderate Rehabilitation Mortgage Loan. |
| **Completed Rehabilitation Work** | • Completed Rehabilitation Work or other repairs, replacements, or improvements must comply with this Chapter.  
• You must document evidence of the  
  - qualifying scope of work completed at the Property, and  
  - cost of work and improvements to the Property verified by you. |
| **Site inspection** | You must perform a site inspection if the qualifying work was not completed pursuant to a Completion/Repair Agreement or a Rehabilitation Reserve Agreement. This requirement may be satisfied if the most recent asset management site inspection was conducted after the required work was completed at the Property. |
| **Rate Lock** | Are not eligible for the Streamlined Rate Lock option. |
Chapter 4  Green Mortgage Loans

Section 401  Generally

### 401.01 Description

**Requirements**

A Green Mortgage Loan is secured by a Property that incorporates features expected to have a positive environmental outcome including, but not limited to, reducing energy and water consumption at a property, generating energy, or meeting criteria set by a third-party green building certification organization.

A Green Rewards Mortgage Loan is secured by a Property on which the Borrower agrees to undertake 1 or more Energy- and Water-Efficiency Measures (Efficiency Measures or EWEM) that comply with Part III, Chapter 4: Green Mortgage Loans, Section 403: Green Rewards Mortgage Loans.

### 401.02 High Performance Building Module

**Requirements**

For a Green Rewards Mortgage Loan, you must:

- retain a consultant to provide either:
  - a High Performance Building (HPB) module (HPB Module), including Appendix H: HPB Module Report Tables (Form 4099.H) as part of a required PCA; or
  - a standalone HPB report (HPB Report), including Form 4099.H; and
- complete the HPB Module or HPB Report and Form 4099.H per the requirements of Form 4099.

**Guidance**

Notwithstanding the prohibition in the Pricing Memo regarding a Lender paying third-party costs, you may use the Origination Fee to reimburse the Borrower for:

- the cost of a standalone HPB Report, or
- the incremental cost of the HPB Module over the cost of the base PCA.

If you use the Origination Fee to pay the Borrower's costs for the HPB
Report or HPB Module, Fannie Mae will reimburse you when you deliver the Green Mortgage Loan.

Operating Procedures

To submit the invoice for the HPB Module or HPB Report for reimbursement, use the Green Mortgage Loan Job Aid.

401.03 Technical Solar Report

Requirements

For a Green Rewards Mortgage Loan where the Borrower wants to install a Solar Photovoltaic System (Solar PV System) as an Efficiency Measure, you must retain a Solar Technical Consultant that is certified by the North American Board of Certified Energy Practitioners (NABCEP) to complete a Technical Solar Report, including Appendix I: Analysis Tool for a Technical Solar Assessment (Form 4099.I), per the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099).

Guidance

If you use the Origination Fee to pay the Borrower’s costs for the Technical Solar Report, Fannie Mae will reimburse you when you deliver the Green Mortgage Loan if a Solar PV System is selected as an Efficiency Measure.

Operating Procedure

You must ensure:

1. The HPB Consultant completes the HPB Module.

2. The Solar Technical Consultant completes a Technical Solar Report, including Form 4099.I, that
   - identifies and quantifies the renewable energy generation potential at the Property, and
   - details the system design specifications of any recommended Solar PV System.

3. If the Technical Solar Report confirms the Property is suitable for a Solar PV System, and the Borrower elects to install a Solar PV System at the Property as an Efficiency Measure, the HPB Consultant incorporates the Solar PV System design specifications, and any required roof replacement or additional structural support, from the Technical Solar Assessment (Form 4099.I) into Form 4099.H.

4. For reimbursement, you submit the Technical Solar Report invoice per
401.04 Green MBS

- Requirements

You must disclose as a Green MBS any Green Mortgage Loan that you deliver as an MBS Mortgage Loan.

401.05 Committing and Delivery

- Operating Procedures

To commit and deliver a Green Mortgage Loan, you must follow the Green Mortgage Loan Job Aid.

Section 402 Green Building Certification

- Requirements

To qualify as a Green Mortgage Loan, you must:

- ensure the Property has a Green Building Certification that complies with Green Building Certifications (Form 4250); and

- review and approve a Green Building Certification prior to
  - Rate Lock, if you are not using the Streamlined Rate Lock option, or
  - the Mortgage Loan Origination Date, if you are using the Streamlined Rate Lock option.

Section 403 Green Rewards Mortgage Loans

403.01 Eligibility

403.01A Generally

- Requirements

For a Green Rewards Mortgage Loan Property to be eligible, you must ensure:

- the Property has at least 12 months of Stabilized Residential Occupancy;
● the Borrower selects Efficiency Measures from the HPB Module or HPB Report projected to result in an annual reduction for the whole Property of at least 30% in combined energy and/or water consumption of which at least 15% must be attributable to savings in energy consumption; and

● for a Manufactured Housing Community,
  ● the 15% energy consumption savings is achieved only through the installation of a Solar PV System or other renewable energy system,
  ● all Efficiency Measures, including the Solar PV System, are made only to Borrower-owned property,
  ● electricity is metered at the whole Property level (master-metered) by the utility to the Property owner (even if reimbursed by the tenants), and
  ● the energy or water consumption reduction is based only on utilities that are metered at the whole Property level (master-metered).

Energy consumption savings may represent reductions in whole-Property consumption of energy supplied by utilities or energy suppliers (including delivered energy such as fuel oil or propane) compared to the previous 12-month baseline through a combination of the installation of an onsite renewable energy system and energy efficiency measures.

403.01B HPB Module, HPB Report, and Technical Solar Report Scoring

☑ Requirements

You must score each HPB Module, HPB Report, and Technical Solar Report per the following 3-point system:

<table>
<thead>
<tr>
<th>Score</th>
<th>Quality of HPB Module, HPB Report, and Technical Solar Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Either you or Fannie Mae may approve as is. No further corrections.</td>
</tr>
<tr>
<td>2</td>
<td>The consultant must address minor issues or clarify content before you or Fannie Mae approve it. Minor corrections.</td>
</tr>
<tr>
<td>3</td>
<td>The consultant must make major changes or multiple revisions before you or Fannie Mae approve it. Substantial issues.</td>
</tr>
</tbody>
</table>

The final HPB Module, HPB Report, and Technical Solar Report must be scored as a "1" before you approve the report or submit it to Fannie Mae for approval, if required.
403.01C  HPB Module, HPB Report, and Technical Solar Report Approval

☑️ Requirements

You must submit an HPB Report or HPB Module to Fannie Mae for approval if:

- you have delivered less than 8 Mortgage Loans that included an HPB Report (or a PCA Report containing an HPB Module); or
- your HPB Consultant has not been designated as “Pre-Qualified” by Fannie Mae at https://multifamily.fanniemae.com/financing-options/specialty-financing/green-financing.

Before Rate Lock, you must submit any Technical Solar Report to Fannie Mae for approval.

❄️ Operating Procedures

If Fannie Mae’s approval of an HPB Module, HPB Report, or Technical Solar Report is required, you must:

- Submit in DUS Gateway, per the Green Mortgage Loan Job Aid, the
  - HPB Module or HPB Report and Form 4099.H, or
  - Technical Solar Report and Form 4099.I.

- Follow this submission timing:
  - For the HPB Module or HPB Report,
    - at least 5 days before Rate Lock, if not using the Streamlined Rate Lock option, or
    - at least 10 days before the Mortgage Loan Origination Date, if using the Streamlined Rate Lock option.
  - For the Technical Solar Report, at least 10 days before Rate Lock.

403.01D  Non-Contiguous Parcels

☑️ Requirements

For a Mortgage Loan secured by Non-Contiguous Parcels, a separate HPB Module, HPB Report, or Technical Solar Report is required for each Collateral Record in C&D.
403.02A Generally

Requirements

After the Borrower selects the Efficiency Measures, you must:

- Include the selected Efficiency Measures on the Addendum to Schedule 6 to the applicable
  - Modifications to Multifamily Loan and Security Agreement (Green Mortgage Loan) (Form 6241), or
  - Modifications to Multifamily Loan and Security Agreement (Green/Solar Mortgage Loan) (Form 6264).

- Add the Addendum to Schedule 6 to the applicable Completion/Repair Agreement or the Rehabilitation Work Schedule to the Rehabilitation Reserve Agreement.

- Describe each Efficiency Measure in enough detail to ensure that any specific products or equipment are installed, including quantities and applicable performance specifications.

- Ensure funds to complete the selected Efficiency Measures are deposited into the Completion/Repair Escrow or the Rehabilitation Reserve Account, in an amount equal to 125% of the estimated cost of all capital improvements identified by the HPB Module, HPB Report, or Technical Solar Report for the selected Efficiency Measures.

- Require all Efficiency Measures be completed in a timely manner and no later than
  - 12 months after the Mortgage Loan Origination Date, or
  - any shorter time period required by Part II, Chapter 4: Inspections and Reserves, Section 402: Property Condition Assessment (PCA) for capital improvements identified as Immediate Repairs by the PCA.

403.02B Solar PV System

Requirements

For a Green Rewards Mortgage Loan, if the Borrower elects to install a Solar PV System as an Efficiency Measure, you must ensure:

- All Solar PV System equipment, including energy storage, will be Borrower-owned and located on the Property.
The Property will remain connected to the utility grid.

The Borrower enters into an Operations and Maintenance Plan covering the Mortgage Loan term.

The Solar PV System has a minimum manufacturer performance warranty of 25-years for the solar panels, and a minimum 10-year product warranty for:

- solar panels;
- inverters;
- racking systems; and
- batteries for energy storage.

Roof age and condition support Solar PV System design and installation, and any roof replacement specified in the Technical Solar Report is included as an Efficiency Measure.

A performance guaranty that covers the full term of the Mortgage Loan is required for systems over 500kW;

Battery storage is for on-site use only and does not commit the Property to an arrangement with any utility, third-party, or off-site use.

Outside counsel with Solar PV System experience and state-specific knowledge reviews all applicable local laws and any contracts or agreements related to the Solar PV System installation and operation.

The Solar PV System installer has a team member or subcontractor who is NABCEP certified.

### 403.03 Underwritten NCF

**Requirements**

You must ensure that the Underwritten NCF for a Green Rewards Mortgage Loan is calculated per Part II, Chapter 2: Valuation and Income or the applicable Part III Chapter.

For any Green Rewards Mortgage Loan where the Borrower elects to install a Solar PV System as an Efficiency Measure, the Underwritten NCF must include all new or increased operating expenses associated with the Solar PV System, such as:

- Operations and Maintenance Plan fees;
- real estate taxes;
- property and liability insurance;
utility fees; and
replacement reserves.

**Guidance**

You may include projected energy and water cost savings from implementing selected Efficiency Measures when calculating Underwritten NCF, up to:

- 75% of any cost savings projected to accrue to the Borrower; plus
- 25% of any cost savings projected to accrue to the tenants, but only if the projections are based on whole-Property or sampled (not modeled) consumption as defined by Form 4099.

### 403.04 Maximum Amount

**Requirements**

The maximum amount of a Green Rewards Mortgage Loan that includes projected cost savings in the Underwritten NCF must not exceed 105% of the Mortgage Loan amount based on the Underwritten NCF excluding the projected cost savings.

### 403.05 Supplemental Mortgage Loans

**Requirements**

You must base the maximum Green Rewards Supplemental Mortgage Loan amount on the aggregate UPB of all Pre-Existing Mortgage Loans secured by the Property, plus the amount of the Green Rewards Supplemental Mortgage Loan.

**Guidance**

Certain Green Rewards Supplemental Mortgage Loans may not count toward the limit on the number of Supplemental Mortgage Loans (see Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402: Supplemental Mortgage Loans).

### Section 404 Annual Energy Reporting

**Requirements**

You must use the following forms requiring the Borrower to report the
Property's annual energy and water use:

- for a Green Rewards Mortgage Loan where the Borrower elects to install a Solar PV System, Modifications to Multifamily Loan and Security Agreement (Green/Solar Mortgage Loan) (Form 6264);

- for any other Green Rewards Mortgage Loan, Modifications to Multifamily Loan and Security Agreement (Green Mortgage Loan) (Form 6241); or

- for any Green Mortgage Loan Property with a Green Building Certification, Modifications to Multifamily Loan and Security Agreement (Green Building Certification) (Form 6267).

For all Green Mortgage Loans, you must ensure the Borrower has enrolled with Fannie Mae's Green Measurement and Verification Consultant within 60 days after the Mortgage Loan Origination Date.
### Chapter 5  Seniors Housing Properties

### Section 501  Generally

<table>
<thead>
<tr>
<th>501.01 Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Requirements</td>
</tr>
<tr>
<td>A Seniors Housing Property is a multifamily residential rental property with Independent Living, Assisted Living, Alzheimer’s/Dementia Care, or Skilled Nursing units.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>501.02 Eligible Lenders</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Requirements</td>
</tr>
<tr>
<td>You must be approved in writing to Deliver Seniors Housing Mortgage Loans.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>501.03 Key Principal/Sponsor Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Requirements</td>
</tr>
<tr>
<td>You must ensure that the Key Principal or Sponsor has owned or operated Seniors Housing Properties of commensurate type, size, and service level as the Property.</td>
</tr>
</tbody>
</table>

### Section 502  Eligible Properties

<table>
<thead>
<tr>
<th>502.01 Eligible Properties</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Requirements</td>
</tr>
<tr>
<td>You must ensure that a Seniors Housing Property has the following design features:</td>
</tr>
<tr>
<td>- convenience features for the elderly in all units, such as grab bars in the bathrooms and emergency pull-cords or equivalent safety items;</td>
</tr>
<tr>
<td>- a fully operational sprinkler system throughout each level of each building (including all units and common areas), regardless of local building code or other governmental requirements;</td>
</tr>
<tr>
<td>- a commercial kitchen for preparing meals for residents;</td>
</tr>
<tr>
<td>- kitchens or kitchenettes containing a refrigerator, microwave or comparable cooking element, and sink in each Independent Living unit, and also in, each Assisted Living unit if consistent with the market; and</td>
</tr>
</tbody>
</table>
bathrooms in each Independent Living and Assisted Living unit.

### 502.02 Ineligible Properties

- **Requirements**

  Fannie Mae will not purchase any Mortgage Loan secured by a Seniors Housing Property:

  - comprised of only Skilled Nursing units;
  - that does not meet the Skilled Nursing NCF Test per Part III, Chapter 5: Seniors Housing Properties, Section 504.02: Skilled Nursing NCF Test; or
  - if the original Seniors Housing Mortgage Loan UPB exceeds 100% of the portion of the Appraised Value
    - attributed to land and all Improvements, but
    - excluding any portion attributed to goodwill, business value, intangibles, and/or furniture, fixtures, and equipment.

### Section 503 Continuing Care Retirement Communities (CCRCs)

- **Requirements**

  You must ensure that a CCRC has:

  - had at least 90% physical occupancy for each of the past 5 fiscal years;
  - debt service reserves equal to at least 1 year of P&I; and
  - a DSCR of at least 1.00 based on annualized rent collections and operating expenses, excluding net entrance fees.

  For any CCRC with an entrance fee, your underwriting must include a summary and analysis of the following:

  - actuarial report (including a copy of the report);
  - range and weighted average of entrance fees offered at the Property, which must be within the range of median home values in the local market;
  - entrance fee refund plans (for example, full, partial, declining, non-refundable);
  - required entrance fee reserve;
  - whether the entrance fee reserve can be assigned as collateral for the
Mortgage Loan;
- net entrance fee income (collections minus refunds) for the past 5 years;
- sufficiency of the entrance fee reserve;
- market analysis of entrance fees;
- underwritten net entrance fee income;
- historical annual resident turnover;
- required operating reserves;
- whether the operating reserves can be assigned as collateral for the Mortgage Loan;
- identity of all governmental authorities that license the Property and Seniors Housing Operator; and
- status of each required license.

### Section 504 Seniors Housing Property Income

#### 504.01 Underwritten NCF

**Requirements**

You must use the following table to calculate Underwritten NCF for Seniors Housing Properties.

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>GROSS RENTAL INCOME per Item 1 in Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF).</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>PLUS</td>
<td>Medicaid income (does not include Medicare, which is included in Skilled Nursing income).</td>
</tr>
<tr>
<td>3</td>
<td>PLUS</td>
<td>Skilled Nursing income actual trailing 12-month collections for Skilled Nursing units (if 12-month collections are not available, then actual trailing 6-month collections (annualized)).¹</td>
</tr>
</tbody>
</table>
### REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>PLUS</td>
<td>To the extent deducted as an operating expense, rents for other non-revenue units (e.g., model units deducted in the model apartment operating expense in the general and administrative category, or actual rent from employee units deducted in the employee operating expense in the payroll and benefits category).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>EQUALS</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>GROSS POTENTIAL RENT (GPR)</strong></td>
</tr>
<tr>
<td>5</td>
<td>MINUS</td>
<td>Physical vacancy market rents for vacant units based on a current rent roll (multiplied by 12).²</td>
</tr>
<tr>
<td>6</td>
<td>MINUS</td>
<td>Concessions the aggregate amount of forgone residential rental income from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc.²</td>
</tr>
<tr>
<td>7</td>
<td>MINUS</td>
<td>Bad debt the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt.²</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>EQUALS</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>NET RENTAL INCOME (NRI)¹</strong></td>
</tr>
</tbody>
</table>
### REQUIRED UNDERWRITTEN NCF
#### (SENIORS HOUSING PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>Skilled Nursing income must not be grossed up to 100% before the 20% deduction is applied. An additional 20% is taken off the Skilled Nursing income.</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>The total of Items 5, 6, and 7 must equal the greater of:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• the difference between the trailing 3-month net rental collections (annualized) and the GPR; or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• the following percentages:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Independent Living: if the percentage of Independent Living units is greater than 50%, then use 5% of GPR.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Assisted Living (60 total units or more): if the percentage of Assisted Living units or the combined percentage of Assisted Living and Alzheimers/Dementia Care units is 50% or greater, then use 5% of GPR.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Assisted Living (less than 60 total units): if the percentage of Assisted Living units or the combined percentage of Assisted Living and Alzheimers/Dementia Care units is 50% or greater, then use 10% of GPR.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Alzheimers/Dementia Care: if the percentage of Alzheimers/Dementia Care units is 100%, then use 10% of GPR.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Skilled Nursing units: use 20% of collections based on the trailing period used in determining Skilled Nursing income in Item 3.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>You must determine if NRI declined per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and adjust Underwritten NRI as required.</td>
</tr>
</tbody>
</table>

### CALCULATION OF ASSISTED LIVING SERVICE INCOME AND OTHER INCOME

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>PLUS</td>
<td>Trailing 12-month nursing/medical income (includes Assisted Living service income).</td>
</tr>
<tr>
<td>9</td>
<td>PLUS</td>
<td>Trailing 12-month ancillary income attributable to Skilled Nursing units, if applicable.</td>
</tr>
<tr>
<td>10</td>
<td>PLUS</td>
<td>Trailing 12-month other income for second resident fees, meals, tray service, laundry, special transportation, community fees, parking revenue, and any other income.</td>
</tr>
</tbody>
</table>

### CALCULATION OF NET ENTRANCE FEE INCOME
## REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>PLUS</td>
<td>Net entrance fee income associated with CCRCs resident entrance fee collections minus entrance fee refunds, but not more than the annualized average of the trailing 60-months of net entrance fee income.</td>
</tr>
</tbody>
</table>

### CALCULATION OF COMMERCIAL INCOME

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>PLUS</td>
<td>Actual income from leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases.</td>
</tr>
<tr>
<td>13</td>
<td>MINUS</td>
<td>10% of the actual commercial space income.</td>
</tr>
<tr>
<td>14</td>
<td>PLUS</td>
<td>Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections.</td>
</tr>
</tbody>
</table>

3 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.

### EFFECTIVE GROSS INCOME (EGI)

**EQUALS**

CALCULATION OF OPERATING EXPENSES
<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 15   | MINUS    | Line-by-line stabilized operating expenses.  

Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a  
• lease-up,  
• rehabilitation, or  
• other short-term positive or negative factors.  

Non-recurring, extraordinary operating expenses must not be included.  

You must assess:  
• past operating history;  
• the appraisers expense analysis;  
• all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and  
• the Borrower's budget (in the case of an acquisition).  

You must:  
• analyze historical operations at the Property; and  
• apply an appropriate increase over the prior years operations in determining an estimate. |
| 16   | MINUS    | Property management fee equal to the greatest of:  

• 5% of EGI;  
• actual property management fee (exclude any portion of a non-arms-length property management fee that is subordinated to the Mortgage Loan); or  
• market property management fee. |
| 17   | MINUS    | Real estate taxes per Item 17(b) in Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF). |
### REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 18   | MINUS    | Insurance equal to:  
• the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or  
• 110% of the current expense, for insurance policies with a remaining term less than 6 months. |
| 19   | MINUS    | Room expense housekeeping, if applicable. |
| 20   | MINUS    | Meals expense, if applicable. |
| 21   | MINUS    | Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis. |
|      | EQUALS   | UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI) |
| 22   | MINUS    | Replacement Reserve expense per Part III, Chapter 5: Seniors Housing Properties, Section 505: Replacement Reserve. |
|      | EQUALS   | UNDERWRITTEN NCF |

### Skilled Nursing NCF Test

#### Requirements

Fannie Mae will not purchase any Mortgage Loan if the Skilled Nursing NCF is more than 20% of the Property's NCF.

You must:

- Calculate the Skilled Nursing NCF at underwriting to determine if the Property will meet this Skilled Nursing NCF test.
- Retest all Properties with Skilled Nursing units annually after closing to ensure compliance.
- Contact the Fannie Mae Deal Team to ensure the Loan Documents for any transaction with Skilled Nursing units include appropriate...
The Skilled Nursing NCF test is a Property-specific test. You must separately test a Property with Skilled Nursing units, if the Mortgage Loan is secured by multiple Properties, or cross-defaulted or cross-collateralized with another Mortgage Loan.

You must use the following table to calculate the Skilled Nursing NCF.

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>SKILLED NURSING INCOME actual trailing 12-month collections for Skilled Nursing units (if 12-month collections are not available, then actual trailing 6-month collections (annualized)).</td>
</tr>
<tr>
<td>2</td>
<td>MINUS</td>
<td>20% of collections based on the trailing period used in determining the Skilled Nursing income.</td>
</tr>
<tr>
<td>3</td>
<td>PLUS</td>
<td>Ancillary income attributable to Skilled Nursing units.</td>
</tr>
<tr>
<td></td>
<td>EQUALS</td>
<td>SKILLED NURSING EFFECTIVE GROSS INCOME (EGI)</td>
</tr>
<tr>
<td>4</td>
<td>MINUS</td>
<td>Fixed expenses greater of actual or allocated fixed expenses (e.g., real estate taxes, liability insurance, etc.) for Skilled Nursing units.</td>
</tr>
<tr>
<td>5</td>
<td>MINUS</td>
<td>Variable operating expenses for Skilled Nursing units.</td>
</tr>
<tr>
<td></td>
<td>EQUALS</td>
<td>SKILLED NURSING NCF</td>
</tr>
<tr>
<td>6</td>
<td>DIVIDED BY</td>
<td>Underwritten NCF per Part III, Chapter 5: Seniors Housing Properties, Section 504.01: Underwritten NCF.</td>
</tr>
<tr>
<td></td>
<td>EQUALS</td>
<td>SKILLED NURSING NCF PERCENTAGE</td>
</tr>
</tbody>
</table>
If the Seniors Housing Operator

- does not have any direct or indirect ownership interest in the Borrower or the Key Principal, or
- is not a Person Controlled by, under common Control with, or which Controls, the Borrower or Key Principal, then you must ensure that the Property meets the following ratios:

### Ratios

<table>
<thead>
<tr>
<th>Ratios</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Lease Coverage Ratio</td>
<td>The minimum underwriting ratios for Underwritten NCF to current year operating lease payments are:</td>
</tr>
<tr>
<td></td>
<td>• 1.10 for Seniors Housing Properties where more than 50% of the units are Independent Living units; and</td>
</tr>
<tr>
<td></td>
<td>• 1.15 for Seniors Housing Properties where 50% or more of the units are Assisted Living, Alzheimers/Dementia Care, or Skilled Nursing units.</td>
</tr>
<tr>
<td>Operating Lease Payment to Debt Service Payment Ratio</td>
<td>The minimum underwriting ratios of the current year operating lease payments to the underwritten fixed rate debt service payments are:</td>
</tr>
<tr>
<td></td>
<td>• 1.15 for Seniors Housing Properties where more than 50% of the units are Independent Living units; and</td>
</tr>
<tr>
<td></td>
<td>• 1.20 for Seniors Housing Properties where 50% or more of the units are Assisted Living, Alzheimers/Dementia Care, or Skilled Nursing units.</td>
</tr>
</tbody>
</table>

### Operating Lease Analysis

Before finalizing the Loan Documents, you must:

- Obtain a copy of each management agreement, operating lease, master lease, and sublease including all exhibits and amendments.
- Upload into DUS Gateway a completed Seniors Housing Operating Lease Review Checklist (Form 6487.SRS) that analyzes the
underwriting and legal aspects of each lease and its impact on the operations of the Property, and

obligations of the Borrower, each Guarantor, and the Seniors Housing Operator under the Loan Documents.

Section 505  Replacement Reserve

- Requirements

The minimum Replacement Reserve amount must equal the greatest of:

- the amount calculated per Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve;
- $300 per unit per year for a Property with no Skilled Nursing units; or
- $450 per unit per year for a Property with any Skilled Nursing units.

Section 506  Medicaid Funds

506.01  Dependency and Medicaid Transition Reserve

- Requirements

You must analyze the EGI to determine the percentage derived from payments under a Medicaid provider agreement with a government authority or managed care organization (Medicaid Funds).

- Operating Procedures

If more than 20% of the EGI is derived from Medicaid Funds, Fannie Mae may require that you

- establish a Medicaid transition reserve account, and/or
- enter into an account control agreement with the Borrower.

If Fannie Mae requires a Medicaid transition reserve, you must:

- determine the appropriate amount of the reserve by considering the reimbursement rates of the government authority or managed care organization, and
- percentage of Medicaid-supported residents at the Property;
- ensure that the Borrower sufficiently funds the reserve; and
use the Modifications to Multifamily Loan and Security Agreement (Medicaid Transition Reserve) (Form 6237.SRS) and Modifications to Multifamily Loan and Security Agreement – Addenda to Schedule 2 – Summary of Loan Terms (Medicaid Transition Reserve) (Form 6102.21.SRS).

If Fannie Mae requires an account control agreement, you must

- require the Borrower to deposit the Medicaid Funds into a controlled account,
- include in the agreement an acknowledgement of Fannie Mae’s first Lien on, and control over, the Medicaid Funds, and
- obtain Fannie Mae's approval if you elect not to use Fannie Mae's form.

### 506.02 State Medicaid

**Requirements**

The Property must be located in a state that has a

- Medicaid waiver in place, or
- Medicaid plan that allows for the payment of services and housing costs from Medicaid Funds.

You must document the Medicaid waiver or plan and demonstrate that it allows for the payment of services performed, and housing costs incurred, at the Property.

### Section 507 Consultant Reports

#### 507.01 Management, Operations, and Regulatory Compliance

**Requirements**

You must engage a third-party professional to analyze the Property's management, operations, and regulatory compliance.

The third-party professional you select must have:

- been in good standing for the past 5 years as a licensed administrator, licensed practical nurse, or registered nurse; and
- at least 5 years of experience with
  - the operation of Seniors Housing Properties, and
  - regulatory matters affecting Seniors Housing Properties.
You must assess and summarize the information presented and conclusions reached by the third-party professional.

507.02 Management and Operations Reports

☑ Requirements

You must obtain management and operations reports for the Property that assess:

- competency, performance, and experience of management at the corporate, regional, and Property levels;
- qualifications of key personnel,
  - noting their experience and length of time in current positions at the Property, and
  - including copies of available resumes;
- hiring and screening practices and personnel policies (such as employee handbooks, orientation materials, initial and in-service training materials, available resources);
- staffing levels, composition, and qualifications;
- risk management policies and procedures, including an analysis of the backgrounds of individuals employed to handle insurance and risk management matters;
- policies and procedures supporting and aligning resident services;
- availability and use of home health services, including whether
  - home health services are available,
  - home health services are provided by the Borrower, the Seniors Housing Operator, an Affiliate of the Borrower or the operator, or a third party, and
  - the home services provider leases space at the Property;
- policies and procedures for documenting residents' well-being (such as periodic resident assessments, tracking the general health condition of each resident, resident safety and evacuation plans);
- content of the admission application and the residency or lease agreement;
- resident turnover data;
- availability of replacements for the Seniors Housing Operator; and
- overall management and operations, including an analysis and detailed
recommendations for any other matters material to the ownership, operation, or management of the Property.

507.03 Regulatory Compliance Report

☑ Requirements

You must obtain a Regulatory Compliance Report for all licensed Seniors Housing Properties. The report must include the following information as of the date of the report:

- identity of all government authorities with jurisdiction over the Property and each authority’s definition of the level of care permitted at the Property;
- summary and copies of all government surveys conducted during the past 3 years, including
  - a summary and analysis of all deficiencies identified in the surveys,
  - the severity of these deficiencies, and
  - the correction plans for all deficiencies, whether corrected or outstanding;
- summary and analysis of all enforcement actions during the past 3 years resulting from a state survey inspection (such as a probationary license or ban on admissions), together with a summary and analysis of any remedial plan of action;
- photocopies of all regulatory permits, licenses, and certificates;
- state staffing requirements;
- summary of the status of any federal, state, or local proposed regulations (or amendments to existing regulations) that could affect the Property or any aspect of the Seniors Housing industry;
- summary of the regulatory and licensing procedures required to change Property ownership, any service provider, the authority to operate, or the management of the Property, and this summary must
  - identify the changes that require advance notice and/or prior approval from the relevant government authority, and
  - describe any advance notice requirements, such as timing, required recipients, and required notice content;
- if the Borrower or Seniors Housing Operator participates in
  - the state’s Medicaid waiver program, or
- another third-party subsidy program,
- an assessment of the risk to the Property’s operations if the program is discontinued;
- identification and analysis of any special insurance requirements of government authorities (such as workers compensation insurance or medical director professional liability insurance);
- copies of the sources and references used to complete this report; and
- overall assessment of regulatory matters affecting the Property, including an analysis and detailed recommendations for any other matters material to the ownership, operation, or management of the Property.
Chapter 6  Manufactured Housing Communities

Section 601  Description

☑️ Requirements

An MH Community is a residential real estate development with lots on which Manufactured Homes are located, together with amenities, utility services, landscaping, roads, and other infrastructure.

Section 602  Lender Eligibility

☑️ Requirements

You must be approved in writing to Deliver MH Community Mortgage Loans.

Section 603  Legal and Property Compliance

603.01  Borrower and the MH Community

603.01A  Borrower Ownership

☑️ Requirements

If the Borrower is a non-profit entity, then you must ensure that each of the following complies with Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals:

- the Borrower;
- Key Principals;
- Guarantors; and
- Principals.

➡️ Guidance

If the Borrower is a non-profit entity, you may reimburse the Borrower from the Origination Fee for up to a combined total of $10,000 for the cost of any required MH Community Mortgage Loan third-party reports (e.g., Appraisal, Environmental Site Assessment).

🌿 Operating Procedures

Fannie Mae will reimburse the cost of any third-party report within 2 months after the delivery of the Mortgage Loan. To receive reimbursement, you must:
request an invoice from the vendor with the report cost listed as a separate line item from any ancillary charges (Fannie Mae will not reimburse other costs such as fees for expediting a report);

within 1 month after the Mortgage Loan Origination Date:

- complete Form 4829, detailing the Lender’s information, the commitment number or loan number, Property information, wiring instructions, and listing the third-party cost as “Other” (note that any fields related to servicing may be left blank); and

- manually sign or e-sign Form 4829, scan or save it as a PDF file, and email the signed PDF Form 4829 and the third-party report invoice to: mhc_report_reimbursement@fanniemae.com.

603.01B  Collateral; Tenant-Occupied and Affiliate-Owned Homes

☑️ Requirements

The collateral for an MH Community Mortgage Loan consists of

- the MH Community’s land and infrastructure,
- the rents for the MH Sites, and
- any other Borrower-owned property used for the MH Community.

The percentage of tenant-occupied Manufactured Homes must not exceed 35%. If the percentage of tenant-occupied Manufactured Homes is greater than 25%, then:

- the Borrower’s business plan must reflect the conversion of tenant-occupied Manufactured Homes to owner-occupied over time; and

- on-going business related to the sale, financing, or rental of a Manufactured Home located on the Property must be performed by an Affiliate.

If any Affiliate-Owned Manufactured Homes are leased to tenants by an Affiliate of either the Borrower or a Key Principal, then:

- The MH Site lease must be at a market rate rent.

- If the tenant’s rent payment includes both the rent for the Affiliate-Owned Manufactured Home and the rent for the MH Site, then either:
  - the check must be payable to and deposited by the Borrower, which must pay all required P&I, and escrows before remitting the rent payment to the Affiliate; or
  - you must consider whether it is appropriate to require a lockbox
arrangement with the Borrower and the Affiliate

- into which all rent checks for the Manufactured Homes and MH Sites must be deposited, and
- from which you can control the disbursement of funds for P&I, required escrows, and the Manufactured Home rentals, with the remainder disbursed to the Borrower.

603.01C  MH Community

Requirements

An eligible MH Community must:

- have a minimum of 50 MH Sites;
- consist of contiguous parcels or, if the MH Community is made up of Non-Contiguous Parcels:
  - all parcels must be located within the same MSA; and
  - each separate parcel (individually), and all Non-Contiguous Parcels (together), must comply with the Guide; and
- achieve at least a Level 3 Quality Rating per the Manufactured Housing Community Quality Rating Standards table in Part III, Chapter 6: Manufactured Housing Communities, Section 603.02: MH Community Score.

An MH Community must be served by either

- public underground utilities, or
- private sewage treatment plants, septic systems, and private water wells which are:
  - common for the market;
  - owned by the Borrower or an Affiliate; and
  - in compliance with all applicable government requirements.

Guidance

The Mortgage Loan may be secured by either an Age-Restricted MH Community or an All-Age MH Community.

You should consider the following:
For an MH Community that is more than 25 years old, does the Borrower have a plan for placing new Manufactured Homes in the MH Community as MH Sites with older Manufactured Homes are vacated?

Are the landscaping and entrance signage high quality and well maintained?

For an MH Community served by a private sewage treatment plant, septic system, or a private water well, then:

- Address the availability and cost of obtaining a backup source for water if the MH Community has a private water well.
- Ensure that the operator of the facility, including its employees and contractors, meet all applicable government requirements to perform ongoing operation and maintenance.
- If the operator is an employee of the Borrower, identify a local, qualified vendor that could be retained if substitute services are needed.
- Exercise reasonable due diligence, including contacting municipal agencies, to confirm that
  - the MH Community’s connection to a municipal system has not been mandated, and
  - no mandate is expected to occur during the term of the Mortgage Loan.
- If hookup is imminent, determine if an escrow for the cost is appropriate.

### 603.02 MH Community Score

**☑ Requirements**

You must determine the MH Community Score using the MH Community Quality Rating Standards table. The overall MH Community Quality Rating is based on the lowest rating for any 1 characteristic.

The MH Community must:

- meet a Level 3 Quality Rating; or
- achieve most of the minimum Quality Rating characteristics and either
  - the unsatisfactory characteristics are not materially detrimental to the performance, overall appearance, desirability, and quality of the MH Community, or
  - any failed characteristic must be remediated as a Completion/Repair
<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Level 3 Quality Rating</th>
<th>Level 4 Quality Rating</th>
<th>Level 5 Quality Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Streets</td>
<td>Paved Roads.</td>
<td>Same as Level 3.</td>
<td>Rolled curbs (if warranted by layout/drainage needs).</td>
</tr>
</tbody>
</table>
| Home Sites    | • Area under the Manufactured Homes consists of concrete, crushed rock, or dirt.  
  • Entry to the Manufactured Homes is through a patio or porch.  
  • Manufactured Homes are supported by stacks of hollow concrete block or steel pier systems along the main beams (with ground anchors and steel straps holding the frame against movement) that meet local and state requirements.  
<p>|               | Same as Level 3 with at least 60% of MH Sites having commercial grade porch/cabanas or patios. | Same as Level 3 with all MH Sites having commercial grade porch/cabanas or patios. |</p>
<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Level 3 Quality Rating</th>
<th>Level 4 Quality Rating</th>
<th>Level 5 Quality Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site Size</td>
<td>Preference for 50% doublewide MH Sites, however you have delegated discretion on the percentage of doublewide sites as long as the MH Community is competitive with a clear market demand for singlewide MH Sites.</td>
<td>Same as Level 3.</td>
<td>Minimum 50% doublewide MH Sites.</td>
</tr>
<tr>
<td>Density</td>
<td>Density reflects the norm for the Property market. Generally, maximum density is 12 MH Sites per acre, however you have delegated discretion to determine the typical density in your market.</td>
<td>Density reflects the norm for the Property market. Generally, maximum density is 7 MH Sites per acre, or 10 MH Sites per acre if developed before 2000.</td>
<td>Same as Level 4.</td>
</tr>
<tr>
<td>Characteristic</td>
<td>Level 3 Quality Rating</td>
<td>Level 4 Quality Rating</td>
<td>Level 5 Quality Rating</td>
</tr>
<tr>
<td>----------------</td>
<td>------------------------</td>
<td>------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Skirts/Hitches</td>
<td>100% of the Manufactured Homes are professionally skirted, with hitches covered or removed. You can meet this requirement through a Completion/Repair Schedule.</td>
<td>Same as Level 3.</td>
<td>All of the Manufactured Homes are professionally skirted, with hitches removed.</td>
</tr>
<tr>
<td>Parking</td>
<td>Minimum of 2 on- or off-street parking spaces per MH Site that are properly maintained, paved, concrete, or gravel (if common in the market). You have delegated discretion to determine compliance based on prevailing market conditions, subject to local ordinances.</td>
<td>Same as Level 3.</td>
<td>2 paved off-street parking spaces per MH Site.</td>
</tr>
</tbody>
</table>
### Manufactured Housing Community Quality Rating Standards

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Level 3 Quality Rating</th>
<th>Level 4 Quality Rating</th>
<th>Level 5 Quality Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Standard</td>
<td>Minimum Standard applies (except as detailed)</td>
<td>Minimum Standard applies (except as detailed)</td>
<td>Level 4 applies (except as detailed)</td>
</tr>
<tr>
<td>Amenities</td>
<td>Not required, but amenity package should be competitive based on market comparables.</td>
<td>Competitive amenity package required.</td>
<td>High quality amenity package competitive with other high-quality MH Communities.</td>
</tr>
</tbody>
</table>

### 603.03 Code Standards

#### Requirements

You must:

- determine if all Manufactured Homes in the MH Community meet the requirements of the Manufactured Home HUD Code; and
- ensure the Loan Documents require Borrower certification that no additional Manufactured Homes predating the Manufactured Home HUD Code will be added to the MH Community during the Mortgage Loan term.

#### Guidance

Fannie Mae may allow Manufactured Homes predating the Manufactured Home HUD Code if

- they are Borrower-owned Manufactured Homes or Affiliate-Owned Homes that comply with local codes with no identified life safety issues, and
- you document the number of Manufactured Homes predating the Manufactured Home HUD Code.

Fannie Mae may allow rental units that do not comply with the Manufactured Home HUD Code (e.g., certain park model recreational vehicles) if the rental income is included as commercial income in Part III, Chapter 6: Manufactured Housing Communities, Section 606: Property Income and
### Underwritten NCF.

#### 603.04 Flood Zone

<table>
<thead>
<tr>
<th>603.04A Rising Water</th>
</tr>
</thead>
</table>

**✓ Requirements**

For an MH Community located in a flood zone with rising water (e.g., flood water that quickly dissipates and flood zone A or AE) you must ensure the Borrower notifies all Homeowners and all tenants of Borrower-owned or Affiliate-Owned Homes occupying an MH Site located in the flood zone before the Mortgage Loan Origination Date.

<table>
<thead>
<tr>
<th>For Manufactured Homes located in a rising water flood zone...</th>
</tr>
</thead>
<tbody>
<tr>
<td>If you</td>
</tr>
<tr>
<td>• do not know the base flood elevation for the flood zone (e.g., flood zone A), or</td>
</tr>
<tr>
<td>• know that the living floor levels are below the base flood elevation</td>
</tr>
</tbody>
</table>

#### 603.04B Moving Water

**✓ Requirements**

For an MH Community located in a flood zone with the potential for flooding due to moving water (e.g., typically in flood zone A and AE and located next to a stream, river, etc.), you must ensure:

- your underwriting assumes that MH Sites located in the flood zone are considered non-income producing MH Sites; and
- the Borrower notifies all Homeowners and all tenants of Borrower-owned or Affiliate-Owned Homes occupying an MH Site located in the flood zone before the Mortgage Loan Origination Date.
603.05 Lease Terms

603.05A Master Leases

- **Requirements**

  You must ensure there are no master lease arrangements affecting any of the MH Sites.

603.05B MH Site Leases

- **Requirements**

  MH Site Leases must
  - be in writing, and
  - not contain an option to purchase the MH Site.

  The Borrower must agree to implement the Tenant Site Lease Protections for all MH Sites by the end of the first loan year.

- **Operating Procedures**

  The Tenant Site Lease Protections may be incorporated
  - by amending each MH Site Lease; or
  - within the MH Community’s rules and regulations, if the MH Site Lease incorporates the rules and regulations by reference.

  The Multifamily Loan Agreement must include a:
  - covenant to implement the Tenant Site Lease Protections by the end of the first loan year;
  - requirement that, if the Tenant Site Lease Protections were implemented within the MH Community’s rules and regulations:
    - the rules and regulations are publicly posted; and
    - each lessee of an MH Site Lease receives written notice of the Tenant Site Lease Protections; and
  - Borrower:
    - representation stating the percentage of MH Site Leases with the Tenant Site Lease Protections;
    - covenant to continue the Tenant Site Lease Protections over the entire Mortgage Loan term; and
requirement to annually submit to you a:

- certified copy of the MH Community’s current Rules and Regulations;
- certified copy of the notice sent to all MH Site Lease tenants if the Tenant Site Lease Protections were implemented by the Rules and Regulations;
- certified copy of the current form of Residential Leases for MH Sites;
- copy of any requested MH Site Leases; and
- certification of the percentage of MH Site Leases with the Tenant Site Lease Protections.

**Guidance**

You may allow

- month-to-month lease terms,
- lease terms for up to 2 years, and
- lease terms longer than 2 years, but only if the lease provides for:
  - an annual rent increase sufficient to cover the current and/or projected Consumer Price Index (CPI);
  - the pass-through of real estate taxes over a base year;
  - the pass-through of any utilities provided by the Borrower; and
  - cannot result in the Manufactured Home on the MH Site being titled as real estate.

**603.05C Loan Document Modification**

- **Requirements**

  You must modify the Loan Documents to reflect the use of short-term or long-term leases.

**Section 604 Property Insurance**

- **Requirements**

  You must ensure that the security for an MH Community Mortgage Loan (per Part III, Chapter 6: Manufactured Housing Communities, Section...
Section 605  Survey

Requirements

If you obtain an acceptable as-built survey of the Property, it must comply with Part II, Chapter 3: Legal Compliance, Section 305: Survey.

Guidance

You should ensure that the survey only shows the location or dimensions of:

- the individual MH Sites,
- any individual Manufactured Homes or recreational vehicles, and/or
- the related MH Site or recreational vehicle site, piers, and/or foundations, that constitute encroachments.

605.01  Public Roadways, Private Interior Roadways, and Drives

Guidance

You should ensure that the survey accurately shows all public roadways.

For any private interior access roads, streets, drives, parking areas, visible utilities, and structures without foundations, the survey:

- does not need to show them accurately from field measurements, unless they constitute encroachments;
- should include a sketch showing their approximate location; and
- may locate them by photogrammetric or other approximate methods.

605.02  Setbacks

Guidance

You should identify and show 2 different types of setbacks on the survey:

- setback restrictions shown in documents of record; and
- setbacks imposed by applicable zoning ordinances or building codes.

You should ensure that the survey:
states that the zoning setbacks apply only to permanent buildings and not to the Manufactured Homes; and

includes recorded references or citations to authority for the zoning setbacks, or gives the reason why this information is not available.

605.03 Encroachments

Guidance

You may show the following encroachments by a simple indicating mark (i.e., a distinctive mark or symbol identified in the legend), without indicating dimensions:

- nonpermanent outbuildings or other structures; and
- recreational vehicles that are not set upon a supporting foundation, MH Site, or pier.

Section 606 Property Income and Underwritten NCF

Requirements

You must use the following table to calculate Underwritten NCF.

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>GROSS RENTAL INCOME(^1) actual MH Site rents in place where Manufactured Homes are installed under leases with residents in occupancy, plus market rents for vacant MH Sites and MH Sites with vacant Manufactured Homes based on a current rent roll (multiplied by 12).</td>
</tr>
<tr>
<td>2</td>
<td>PLUS</td>
<td>To the extent deducted as an operating expense, MH Site rents for other non-revenue MH Sites, such as:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• MH Sites with model Manufactured Homes deducted in the model apartment operating expense in the general and administrative category; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• actual MH Site rent from employee Manufactured Homes deducted in the employee operating expense in the payroll and benefits category.</td>
</tr>
</tbody>
</table>

EQUALS GROSS POTENTIAL RENT (GPR)
# REQUIRED UNDERWRITTEN NCF (MANUFACTURED HOUSING COMMUNITY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 3    | MINUS    | Physical vacancy
  • market rents for vacant MH Sites based on a current rent roll (multiplied by 12); and
  • net rental collections for occupied MH Sites where the Manufactured Home is vacant, and the MH Site rent is paid by the MH Community owner, prior occupants, or a third party (e.g., a retail creditor). |
| 4    | MINUS    | Concessions the aggregate amount of forgone residential rental income from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc. |
| 5    | MINUS    | Bad debt the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt. |

**EQUALS** NET RENTAL INCOME (NRI)

---

1. Includes the MH Site rent for any Affiliate-Owned Manufactured Home or Borrower-owned Manufactured Homes, but excludes the rent (or that portion of the rent) for the Manufactured Home.

2. The total of Items 3, 4, and 5 must equal the greater of
   • the difference between the trailing 3-month net rental collections (annualized) and GPR, or
   • 5% of GPR.

   If a rent increase with verified actual collections was instituted within the trailing 3 months, then NRI may be calculated based on the trailing 1-month net rental collections (annualized).

3. If NRI is greater than the trailing 1-month of actual NRI (annualized), then reduce to actual NRI.

4. You must assess any decline in NRI per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis, and adjust Underwritten NRIs as required.

---

**CALCULATION OF OTHER INCOME**
### REQUIRED UNDERWRITTEN NCF (MANUFACTURED HOUSING COMMUNITY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 6 | PLUS | Actual other income generated through ongoing operations. The income must:  
  - be stable;  
  - be common in the market;  
  - exclude one-time extraordinary non-recurring items; and  
  - be supported by prior years.  

  You must assess the individual month's other income within the prior full-year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized).  

  If there are fluctuations, you may use other income that exceeds the trailing 3-month other income (annualized), provided it does not exceed the highest 1-month other income used in the trailing 3-month other income calculation. |
| 7 | PLUS | For RV Sites with lease terms of 30 days or more, the lesser of  
  - actual average net collections for the past 3 years, or  
  - the current trailing 12-month RV Site rents, minus a 10% vacancy. |
| 8 | PLUS | Actual income from leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases. |
| 9 | PLUS | Actual average RV Site rental income for RV Sites with lease terms of less than 30 days. |
| 10 | PLUS | Actual MH Site rental income for Manufactured Homes that predate the Manufactured Home HUD Code. |
| 11 | MINUS | 10% of the actual commercial space income (total of Items 8, 9, and 10). |
| 12 | PLUS | Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections. |

5 If the average RV Site rental income for RV Sites with lease terms of 30 days or more is greater than 20% of EGI, then reduce to 20% of EGI.  

6 If net commercial income is greater than 10% of EGI, then reduce to 10% of EGI. Additionally, total RV Site income from Items 7 and 9 (less 10% vacancy) cannot exceed 20% of EGI.
### REQUIRED UNDERWRITTEN NCF (MANUFACTURED HOUSING COMMUNITY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>PLUS</td>
<td>Laundry and, vending, parking, and all other income per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.</td>
</tr>
<tr>
<td></td>
<td>EQUALS</td>
<td>EFFECTIVE GROSS INCOME (EGI)</td>
</tr>
</tbody>
</table>
| 14   | MINUS    | Line-by-line stabilized operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a  
• lease-up,  
• rehabilitation, or  
• other short-term positive or negative factors.  
Non-recurring, extraordinary operating expenses must not be included.  
You must assess:  
• past operating history;  
• the appraisers expense analysis;  
• all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and  
• the Borrower's budget (in the case of an acquisition).  
You must:  
• analyze historical operations at the Property; and  
• apply an appropriate increase over the prior years operations in determining an estimate. |
| 15   | MINUS    | Property management fee equal to the greatest of:  
• 3% of EGI;  
• actual property management fee (exclude any portion of a non-arms length property management fee that is subordinated to the Mortgage Loan); or  
• market property management fee. |
## REQUIRED UNDERWRITTEN NCF (MANUFACTURED HOUSING COMMUNITY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>MINUS</td>
<td>Real estate taxes based on the greatest of:</td>
</tr>
</tbody>
</table>

- actual future tax bill(s) covering a full calendar year;  
- prior full years taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or  
- in California, the sum of:  
  - any special assessments; plus  
  - the millage rate multiplied by the greater of the  
  - Mortgage Loan amount, or  
  - assessed value.

You must:  
- consider any automatic reassessment upon acquisition in the next 12-month period;  
- include ad valorem taxes for Borrower-owned Manufactured Homes; and  
- for any tax abatement, exemption, deferral, or PILOT expiring within 36 months after the Mortgage Loan Origination Date, underwrite fully assessed real estate taxes.

If the Property has real estate tax abatements, exemptions, deferrals, or PILOTs, they must:  
- be in effect at closing, per written documentation from the state or local tax assessor; and  
- survive a foreclosure on the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, deferral, or PILOT (i.e., it is tied to the Property and not the owner).

If the timeframe for the real estate tax abatement, exemption, deferral, or PILOT is shorter than the Mortgage Loan term, or begins phasing out or expires within 5 years after the Maturity Date, you must consider:  
- a Bifurcated Mortgage Loan structure (i.e., 2 notes secured by a single first Lien Security Instrument);  
- an amortization schedule that accommodates the elimination of the abatement; or  
- providing clear justification and support in the refinance analysis.
### REQUIRED UNDERWRITTEN NCF (MANUFACTURED HOUSING COMMUNITY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 17   | MINUS    | Insurance equal to:  
  • the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or  
  • 110% of the current expense, for insurance policies with a remaining term less than 6 months. |
| 18   | MINUS    | Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis. |
|      | EQUALS   | UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI) |
| 19   | MINUS    | Replacement Reserve expense per Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve, with a minimum annual amount of $25 per MH Site. |
|      | EQUALS   | UNDERWRITTEN NCF |

### Section 607

Replacement Reserve

☑️ Requirements

If the Replacement Reserve determined by the Property Condition Assessment is more than $75 per MH Site, full funding of the Replacement Reserve is required per Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve.
Chapter 7  Multifamily Affordable Housing Properties

Section 701  Generally

701.01  Description

☑ Requirements

An MAH Property is a Property that is encumbered by a regulatory agreement, land use restriction agreement, extended use agreement, or similar restriction (an Affordable Regulatory Agreement) that

- limits rents that can be charged to tenants, or
- imposes income limits on tenants.

An Affordable Preservation Transaction is any transaction involving an MAH Property that:

- currently has rent or income restrictions meeting the eligibility criteria of an MAH Property, but the Property is potentially at risk of being lost from the affordable housing inventory through conversion to market-rate housing;
- is not receiving new LIHTCs; and
- is being acquired or refinanced, but excludes a Mortgage Loan paying off the initial construction loan.

701.02  Eligible Lenders

☑ Requirements

You must be approved in writing to Deliver MAH Mortgage Loans.

Section 702  MAH Property Eligibility

702.01  Eligible Characteristics and Underwriting

☑ Requirements

You must ensure that an MAH Property has rent or income restrictions that meet or exceed 1 of the following:

- 20% @ 50%: at least 20% of all units have rent or income restrictions in place making them affordable to households earning no more than 50% of AMI as adjusted for family size.
- 40% @ 60%: at least 40% of all units have rent or income restrictions in
place making them affordable to households earning no more than 60% of AMI as adjusted for family size (except for New York City, where at least 25% of all units have rent or income restrictions in place, making them affordable to households earning no more than 60% of AMI as adjusted for family size).

- **HAP contract:** at least 20% of all units are subject to a project-based HAP contract.

- **Special Public Purpose:** the Property
  - is subject to an Affordable Regulatory Agreement imposed by a government entity, containing other rent and/or income restrictions,
  - has rent or income restrictions that meet or exceed **20% @ 80%**: at least 20% of all units have rent or income restrictions in place making them affordable to households earning no more than 80% of AMI as adjusted for family size, and
  - meets a noteworthy special public purpose.

- **Sponsor-Initiated Affordability:** the Borrower may voluntarily self-impose rent and income restrictions to preserve or create multifamily affordable housing. These restrictions must:
  - require the Property to have
    - rent and income restrictions that meet or exceed **20% @ 80%**: at least 20% of all units have rent and income restrictions in place making them affordable to households earning no more than 80% of AMI as adjusted for family size, and
    - restricted unit rent limits not exceeding 30% of the adjusted AMI;
  - be placed on record against the Property by executing the Sponsor-Initiated Affordability Agreement (Form 6490);
  - be in place at the Property by the Mortgage Loan Origination Date;
  - require the Property to comply with the Sponsor-Initiated Affordability Agreement (Form 6490) within 12 months after the Mortgage Loan Origination Date;
  - remain in place during the Mortgage Loan term; and
  - be certified annually by the Borrower and monitored by an Administering Agent for compliance with the Sponsor-Initiated Affordability Agreement (Form 6490).

**Guidance**

An MAH Property may also:
be subject to FHA Risk Sharing;
be financed using tax-exempt Bonds;
receive LIHTCs under Section 42 of the Internal Revenue Code, and its related U.S. Treasury regulations;
be subject to inclusionary zoning (e.g., targeting certain income levels or employees of certain firms or institutions, etc.) or resale restrictions; or
receive other state, local or federal subsidies which are conditioned on the affordability of some or all of the units in the Property, including Rural Housing Service (RHS) Section 515 Loans, and Loans insured under Section 202 or Section 236 of the National Housing Act.

Requirements

You must:

- Reflect the impact of the rent or income restrictions in your underwriting.
- Maintain a copy of the applicable Affordable Regulatory Agreement or Property restrictions in your Servicing File.

Operating Procedures

For any Property with Sponsor-Initiated Affordability, the Borrower must execute the:

- Sponsor-Initiated Affordability Agreement (Form 6490);
- Modifications to Multifamily Loan and Security Agreement (Sponsor-Initiated Affordability Restrictions) (Form 6271); and
- Payment Guaranty (Pricing Incentive Recapture) (Form 6020.PIR).

To commit and Deliver a Mortgage Loan that qualifies as Special Public Purpose or Sponsor-Initiated Affordability, refer to:

- Multifamily Affordable Housing Property Definition – Special Public Purpose FAQs; and
- Sponsor-Initiated Affordability FAQs.

702.02 Ineligible Characteristics and Underwriting

Requirements

You must not underwrite or price the Property as an MAH Property if it has:
less than 3 years of rent or income restrictions remaining on the Affordable Regulatory Agreement and is expected to transition to market rents during the term of the Mortgage Loan; or

- 3 or more years of LIHTC restrictions remaining, but the Borrower intends to enter into the Qualified Contract Process (per Section 42 of the Internal Revenue Code) within 3 years after the Mortgage Loan Origination Date.

**Operating Procedures**

If a Property will have existing rent, income, and/or occupancy restrictions when you Deliver the Mortgage Loan, you must indicate the “MAH type” in C&D under “Other Attributes”, even if you cannot underwrite the Property as an MAH Property or Affordable Preservation Transaction per this Section 702.02: Ineligible Characteristics and Underwriting.

**Section 703** Property Income and Underwriting

**703.01** Underwritten NCF

**Requirements**

You must use the following table to calculate Underwritten NCF.

<table>
<thead>
<tr>
<th>REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Item</strong></td>
</tr>
<tr>
<td>CALCULATION OF NET RENTAL INCOME</td>
</tr>
</tbody>
</table>
### REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Function</td>
<td>GROSS RENTAL INCOME the least of:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• rents permitted under any federal, state, or local subsidy program applicable to the Property, as adjusted for AMI, family size, and number of bedrooms in a unit, and reductions for the applicable utility allowances;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• rents permitted under any restrictive covenants, subordinate financing requirements, or an Affordable Regulatory Agreement recorded on the Property; or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• based on a current rent roll,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- actual rents in place for occupied units, plus</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- for vacant units, the lowest of:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• actual rents in place for comparable occupied units;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• market rents; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• permitted rents, described above (multiplied by 12).</td>
</tr>
<tr>
<td>2</td>
<td>PLUS</td>
<td>Rent from non-project based Housing Choice Vouchers must not exceed the average rent for comparable units without non-project based Housing Choice Vouchers.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>You must include incremental HAP contract income per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 707.01: Properties with Both HAP Contracts and LIHTC Units.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>To the extent deducted as an operating expense, rents for other non-revenue units (e.g., model units deducted in the model apartment operating expense in the general and administrative category, or actual rent from employee units deducted in the employee operating expense in the payroll and benefits category).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>EQUALS GROSS POTENTIAL RENT (GPR)</td>
</tr>
<tr>
<td>3</td>
<td>MINUS</td>
<td>Physical vacancy applicable actual rents for vacant units and MAH unit type (e.g., 20% @ 50%, 40% @ 60%, or HAP contract) based on a current rent roll (multiplied by 12).</td>
</tr>
<tr>
<td>4</td>
<td>MINUS</td>
<td>Concessions the aggregate amount of forgone residential rental income from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc.</td>
</tr>
<tr>
<td>5</td>
<td>MINUS</td>
<td>Bad debt the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>EQUALS NET RENTAL INCOME (NRI)</td>
</tr>
</tbody>
</table>
REQUIRED UNDERWRITTEN NCF
(MULTIFAMILY AFFORDABLE PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>For Properties with HAP contracts, you</td>
<td></td>
</tr>
</tbody>
</table>
• may use newly approved rents if they are effective by the first day of the month after the Mortgage Loan Origination Date, even if the rents exceed trailing GPR, but  
• may not use rents based on  
  - an agreement to enter into a HAP contract (AHAP),  
  - commitment to enter into a Housing Assistance Payment contract (CHAP), or  
  - a "comfort letter". |
| 2    | You may underwrite HAP contract rents up to: |  
• 5% above market rents if the MAH Property is located in an Eligible MSA; or  
• 10% above market rents if the MAH Property is located in a Strong Market, provided the Property's  
  - HAP contract expires after the Maturity Date, and  
  - current and average 3-year physical occupancy is greater than or equal to 95%. |
| 3    | The total of Items 3, 4, and 5 must equal the greater of |  
• the GPR including any permitted HAP contract rent increases multiplied by the percentage difference between  
  - the trailing 3-month net rental collections (annualized), and  
  - trailing GPR excluding any HAP contract rent increases not in effect before the Mortgage Loan Origination Date; and  
• either  
  - 5% of GPR, including any permitted HAP contract rent increases, or  
  - 3% of GPR, including any permitted HAP contract rent increases, if:  
    • the Property is located in a Strong or Nationwide Market per Form 4660;  
    • for a Property without a HAP contract, the actual rents for restricted units are at least 10% below comparable market rents; and  
    • the economic vacancy (i.e., the total of Items 3, 4, and 5) is supported by current and 3 years of historical economic vacancy data. |
| 4    | You must assess the NRI, including any declines, and make adjustments per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis. |  

CALCULATION OF OTHER INCOME
### REQUIRED UNDERWRITTEN NCF
(MULTIFAMILY AFFORDABLE PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>PLUS</td>
<td>Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• be stable;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• be common in the market;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• exclude one-time extraordinary non-recurring items; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• be supported by prior years.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>You must assess the individual month’s other income within the prior full-year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>If there are fluctuations, you may use other income that exceeds the trailing 3-month other income (annualized), provided it does not exceed the highest 1-month other income used in the trailing 3-month other income calculation.</td>
</tr>
</tbody>
</table>

5 If premiums or corporate premiums are applicable for a particular MAH Property, inclusion of premium income is permitted consistent with Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.

#### CALCULATION OF COMMERCIAL INCOME

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>PLUS</td>
<td>Actual income from leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases.</td>
</tr>
<tr>
<td>8</td>
<td>PLUS</td>
<td>Actual income from STR units.</td>
</tr>
<tr>
<td>9</td>
<td>MINUS</td>
<td>10% of the actual commercial space income.</td>
</tr>
<tr>
<td>10</td>
<td>PLUS</td>
<td>Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections.</td>
</tr>
<tr>
<td>11</td>
<td>PLUS</td>
<td>Laundry and vending, parking, and all other income per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.</td>
</tr>
</tbody>
</table>

6 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.

**EQUALS** EFFECTIVE GROSS INCOME (EGI)

#### CALCULATION OF OPERATING EXPENSES

---

© 2023 Fannie Mae. Trademarks of Fannie Mae. Effective: 10/26/2023 235 of 799
<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 12   | MINUS    | Line-by-line stabilized operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a  
- lease-up,  
- rehabilitation,  
- or other short-term positive or negative factors.  
Non-recurring, extraordinary operating expenses must not be included.  
You must assess:  
- the past operating history;  
- the appraisers expense analysis;  
- all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and  
- the Borrower’s budget (in the case of an acquisition).  
You must:  
- analyze historical operations at the Property;  
- apply an appropriate increase over the prior years operations in determining an estimate; and  
- include all STR-related expenses in their respective expense line items, including  
  - cleaning,  
  - furnishing, and  
  - repairs. |
| 13   | MINUS    | Property management fee equal to the greatest of:  
- 4% of EGI;  
- actual property management fee (exclude any portion of a non-arms-length property management fee that is subordinated to the Mortgage Loan); or  
- market property management fee. |
<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td></td>
<td><strong>Minimum management fee may be 3.5% of EGI (rather than 4% of EGI) if the:</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• underwritten management fee is at least $300 per unit;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• actual management fee is equal to or less than the underwritten management fee; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• market management fees support the underwritten management fee for similarly sized MAH properties.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>If the MAH Property is located in a Strong Market or Eligible MSA and the Mortgage Loan's original UPB is greater than $6 million, the minimum management fee may be the greatest of</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 2.5%,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• $300 per unit,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• the actual management fee, or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• market management fees for similarly sized MAH properties.</td>
</tr>
<tr>
<td>14</td>
<td>MINUS</td>
<td><strong>Real estate taxes based on the greatest of:</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• actual future tax bill(s) covering a full calendar year;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• prior full years taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• in California, the sum of:</td>
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<tr>
<td></td>
<td></td>
<td>- any special assessments; plus</td>
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<td></td>
<td></td>
<td>- the millage rate multiplied by the greater of the</td>
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<tr>
<td></td>
<td></td>
<td>• Mortgage Loan amount, or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• assessed value.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>You must:</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• consider any automatic reassessment upon acquisition in the next 12-month period; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• for any tax abatement, exemption, deferral, or PILOT expiring within 36 months after the Mortgage Loan Origination Date, underwrite fully assessed real estate taxes.</td>
</tr>
<tr>
<td>Item</td>
<td>Function</td>
<td>Description</td>
</tr>
<tr>
<td>------</td>
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</tr>
</tbody>
</table>
| 14   | MINUS    | If the Property has real estate tax abatements, exemptions, deferrals, or PILOTs, they must:  
• be in effect at closing (or at conversion in the case of a Forward Commitment), per written documentation from the state or local tax assessor;  
• survive a foreclosure on the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, deferral, or PILOT as long as the rent, income, or other restrictions are maintained (i.e., it is tied to the Property and not the owner); and  
• if governed under the California Welfare Tax Exemption Program, meet the following:  
  - if a refinance, the Borrower must be in and remain in compliance with the California Welfare Tax Exemption program; or  
  - if an acquisition or a Transfer/Assumption where the Affiliate with Control of the Borrower (which is typically a non-profit entity), or the non-profit entity itself, is changing you must:  
    • escrow at least 6 months of full real estate taxes at closing which will be released after confirming that the California Welfare Tax Abatement is approved and in place at the Property;  
    • ensure that the Borrower has demonstrated experience with the California Welfare Tax Abatement Program; and  
    • ensure that the Borrower is and remains eligible for the California Welfare Tax Abatement Program. |
<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 14   | MINUS    | If governed under the Florida affordable housing property exemption (per Sections 196.1978(1) and (2) of the Florida Statutes),  
• for a refinance, the Borrower must initially be in compliance, and remain in compliance, with the Florida affordable housing property exemption; or  
• for an acquisition or a Transfer/Assumption, you must:  
  - confirm the Borrower applies to the county taxing authority within 60 days after the Mortgage Loan Origination Date;  
  - escrow full taxes until you confirm the Florida affordable housing property exemption is approved and in place at the Property; and  
  - after confirmation, refund the escrowed taxes to the Borrower.  
If the Property benefits from real estate tax abatements, exemptions, deferrals, or a PILOT that will not survive a Foreclosure Event, then you may use a reduced real estate tax payment only if:  
• upon reapplying for the original underwritten tax abatement or an alternative tax abatement, Fannie Mae or a subsequent Property owner would qualify for the tax abatement;  
• the rent or income restrictions at the Property are maintained; and  
• you have ensured that:  
  - if a qualified non-profit entity is required to participate in the ownership structure of the MAH Property in order to qualify for the tax abatement, exemption, or deferral, a sufficient number of qualified non-profits currently operate in the market (at least 3 for an MSA with a population of less than 1 million and at least 5 for an MSA with a population of 1 million or greater), and in the event of a foreclosure, could serve in the replacement ownership structure to qualify for the tax abatement, exemption, deferral, or PILOT; and  
  - the original or alternative tax abatement, exemption, deferral, or PILOT has  
    • been established in the states statutes,  
    • been in effect for at least 10 years, and  
    • the Lender conducted all appropriate due diligence and confirmed that there is no material risk that the tax abatement, exemption, or deferral legislation will be repealed or revised in a manner that would affect the Property's ability to continue to qualify for the tax abatement, exemption, deferral, or PILOT. |
### REQUIRED UNDERWRITTEN NCF
(MULTIFAMILY AFFORDABLE PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 14   | MINUS    | If the timeframe for the real estate tax abatement, exemption, deferral, or PILOT is shorter than the Mortgage Loan term, or begins phasing out or expires within 5 years after the Maturity Date, you must consider:  
  - a Bifurcated Mortgage Loan structure (i.e., 2 notes secured by a single first Lien Security Instrument);  
  - an amortization schedule that accommodates the elimination of the abatement; or  
  - providing clear justification and support in the refinance analysis.  
  
For a Property with a tax abatement, the Modifications to Multifamily Loan and Security Agreement (Tax Abatement or Exemption) (Form 6251) must be executed even if you do not underwrite the tax abatement. |
| 15   | MINUS    | Insurance equal to:  
  - the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or  
  - 110% of the current expense, for insurance policies with a remaining term of less than 6 months. |
| 16   | MINUS    | Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.  
  
EQUALS UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI) |
| 17   | MINUS    | Replacement Reserve expense per Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF).  
  
EQUALS UNDERWRITTEN NCF |

### 703.02 Underwriting

#### 703.02A Appraised Value and Underwriting Value

- **Requirements**

In addition to the Appraisal requirements in Part II, Chapter 2: Valuation and Income, Section 201.02: Appraisal, you must:
Include 2 separate opinions of the Appraised Value based on:

- Restricted Value from the Affordable Regulatory Agreement, using
  - comparable multifamily rental properties,
  - the Property’s submarket,
  - properties with similar rent or income restrictions, and
  - any tax abatements or exemptions.

- Unrestricted Value from the Property’s income and expenses without the Affordable Regulatory Agreement (e.g., market rents, occupancy, and operating expenses), using
  - comparable multifamily market rate rental properties,
  - the Property’s submarket, and
  - full taxes if rental income restrictions are required by a tax abatement or exemption.

Ensure that each Appraised Value is based on a market cap rate without any upward or downward adjustment for:

- special financing (other than adjusted cap rates for Credit Enhancement Mortgage Loans); or
- tax credit benefits.

Determine the appropriate Appraised Value for the Underwriting Value per Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation.

703.02B Market Study

☑ Requirements

If the Property is subject to a HAP contract that will expire before the Mortgage Loan Maturity Date, you must include a market study (which can be part of the Appraisal) that:

- is prepared by a qualified real estate professional; and
- identifies the absorption rate, lease-up period, and rent level for comparable market rate rental properties in the submarket.

703.02C Affordable Regulatory Agreement Restrictions

➡ Guidance
To underwrite the Mortgage Loan as an MAH Property, the Affordable Regulatory Agreement restrictions should remain in effect for the term of the Mortgage Loan.

**Requirements**

When the Affordable Regulatory Agreement restrictions have 3 or more years remaining but will expire before the Mortgage Loan Maturity Date, you must provide support to underwrite to the MAH Preservation standards in the Form 4660, taking into account factors such as:

- restricted rents below market rate rents;
- the Property’s history of operating as an MAH Property;
- the Borrower’s history and experience owning and operating MAH Properties;
- the Borrower’s intention to renew the Affordable Regulatory Agreement;
- the amount of time between the Maturity Date and when the Affordable Regulatory Agreement restrictions expire;
- market strength; and
- how the Property compares to comparable market rate properties in terms of occupancy, condition, and amenities if the Borrower intends to convert the Property to market rate rents and if no rent advantage exists.

See Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 702.01: Eligible Characteristics and Underwriting regarding self-imposed restrictions.

**703.02D 35-Year Amortization**

**Requirements**

If you use a 35-year amortization term, the:

- Property must have LIHTCs with at least 8 years remaining in the initial 15-year compliance period; and
- minimum MAH Mortgage Loan term must equal the greater of
  - the remaining initial compliance period, and
  - 10 years.

**703.02E LIHTC Income Averaging**
Guidance

When a Sponsor elects LIHTC Income Averaging for a Property with new LIHTCs, you should consider:

- Will LIHTC Income Averaging impact other non-LIHTC regulatory agreements?
- Is LIHTC Income Averaging compatible with other funding and subsidy source requirements, including any project-based HAP contract?
- Has LIHTC Income Averaging been approved by the state agency, and LIHTC investor or syndicator?
- Will the on-site Property management staff have sufficient experience?
- Will the unit mix be impacted, including unit parity, multi-building election, floating units, and market rate units?
- What is the rent advantage, especially for units above 60% of AMI?
- For a Forward Commitment,
  - is the Property not a resyndication of a property previously developed or preserved using LIHTCs and subject to an existing extended use agreement, or
  - if the Property is a resyndication, have you confirmed the property has completed its extended use period?
- Does the market study include capture rates for each unit designation supporting LIHTC Income Averaging?

Requirements

You must identify and mitigate any risks from electing LIHTC Income Averaging.

703.02F Initial LIHTC Equity

Requirements

For any MAH Property with new LIHTCs, you must ensure at least 20% of
the aggregate LIHTC equity that the LIHTC investor or syndicator must contribute into the limited partnership is received on or before the Mortgage Loan Origination Date.

703.02G  Developer Fees

_guidance_ You should analyze the development budget, including the
- developer fee due the Sponsor or any Affiliate, and
- any deferred developer fee (i.e., the portion of the developer fee shown as a source in the sources and uses statement).

If the deferred developer fee is greater than 50% of the total developer fee, you should confirm there are sufficient
- hard and soft contingency budgets, and
- projected surplus cash flows to repay the deferred developer fee within the initial compliance period.

703.02H  Rent-Stabilized Units

_guidance_ Refer to Part II, Chapter 2: Valuation and Income, Section 205: Rent-Stabilized Properties regarding rent-stabilized MAH Property units.

Section 704  Subordinate Financing

704.01  Interest Rate and Payments

_requirements_ You must ensure any subordinate loan:
- has a fixed rate; and
- any non-Soft Financing has:
  - interest payable on a current basis; and
  - no deferrals or accruals.

704.02  Loan Term
Requirements

You must ensure any non-fully amortizing subordinate loan, including any Soft Financing, matures at least 180 days after the Maturity Date of the Mortgage Loan and any Pre-Existing Mortgage Loans.

Guidance

A fully amortizing subordinate loan may mature at any time regardless of the Mortgage Loan Maturity Date. A subordinate loan may also be fully or partially forgiven at any time per its loan documents.

### 704.03 Collateral and Credit Support

#### Requirements

You must ensure the Mortgage Loan obtains the same credit support and collateral as any subordinate loan, including any

- recourse to the Borrower or any guarantor, or
- additional collateral.

You may secure the subordinate loan with a Lien on the Property if the Lien:

- is subordinated to the Security Instrument's Lien per
  - Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.07: Subordination Agreement,
  - Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.08: Lien Priority and Title Insurance Policy, and
  - Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.09: Form of Subordinate Loan Documents; and

- includes only the same collateral covered by the Mortgage Loan's Security Instrument.

### 704.04 Soft Financing

#### Requirements

To be considered Soft Financing...

<table>
<thead>
<tr>
<th>Provision</th>
<th>To be considered Soft Financing...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing Terms</td>
<td>Subordinate loan terms must comply with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704: Subordinate Financing.</td>
</tr>
</tbody>
</table>
Provision | To be considered Soft Financing...
--- | ---
Payments | • Any subordinate loan payments due during the Mortgage Loan term, including any fees, must be payable only from the surplus NCF remaining after all other payments (due and owing) are made on the Mortgage Loan or any Pre-Existing Mortgage Loans.  
• No more than 75% of the surplus NCF must be available for payments on all Soft Financing unless the note is payable to the Sponsor or an Affiliate.
Events of Default | Failure to pay principal and/or interest due to lack of surplus NCF must not be an event of default.
Subordination | Subordination must comply with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.07: Subordination Agreement.

**Guidance**

Soft Financing may have:

- a nominal interest rate (e.g., 1% or 2%);
- interest that does not accrue;
- principal payments that do not fully amortize the subordinate loan over its term; or
- a loan term significantly longer than the Mortgage Loan term, with the subordinate loan either
  - being forgiven over time or at its maturity date, or
  - due only upon the sale of the Property.

704.05 Subordinate Lender

- Requirements
<table>
<thead>
<tr>
<th>If the Lender type is...</th>
<th>Then...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public / Quasi-Public / Not-for-Profit Lender</td>
<td>A subordinate loan provided by a public, quasi-public, or not-for-profit Lender may</td>
</tr>
<tr>
<td></td>
<td>• be Soft Financing, or</td>
</tr>
<tr>
<td></td>
<td>• require mandatory payments of P&amp;I, or interest-only.</td>
</tr>
<tr>
<td>Private Lender</td>
<td>You must ensure that any subordinate financing originated by a private, for-profit Lender is Soft Financing per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.04: Soft Financing.</td>
</tr>
</tbody>
</table>

### 704.06 Developer's Notes

- **Requirements**

  You must ensure any developer note or advance due the Sponsor or an Affiliate is Soft Financing per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.04: Soft Financing.

### 704.07 Subordination Agreement

- **Requirements**

  For all subordinate financing, including Soft Financing, you, the Borrower, and the subordinate Lender must enter into either:

  - Fannie Mae form Subordination Agreement (Affordable) (Form 6456), if the subordinate Lender is a government entity; or
  - Fannie Mae form Subordination Agreement (Conventional) (Form 6414), if the subordinate Lender is not a government entity.

### 704.08 Lien Priority and Title Insurance Policy

- **Requirements**

  You must ensure:

  - The subordinate loan, along with any Lien securing the subordinate loan, remains at all times, subordinate to the Security Instrument's Lien, including any refinancing.
The Subordination Agreement is recorded in the land records immediately after the subordinate security instrument is recorded.

The lender’s title insurance policy reflects the recordation of the Subordination Agreement.

### 704.09 Form of Subordinate Loan Documents

**Requirements**

You must confirm that the subordinate loan documents:

- comply with this Chapter;
- include the specific provisions required by the Subordination Agreement; and
- do not require the Borrower to maximize rents at the Property (even if the Property is subject to an Affordable Regulatory Agreement).

### 704.10 Prepayment

**Requirements**

The Borrower may not prepay or redeem the subordinate loan without Fannie Mae’s consent.

### 704.11 LIHTC Equity Bridge Loans

**Requirements**

<table>
<thead>
<tr>
<th>LIHTC Equity Bridge Loan</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lender Eligibility</td>
<td>The LIHTC equity bridge lender must not be on ACheck.</td>
</tr>
<tr>
<td>Repayment</td>
<td>Must be completely repaid on or before the final LIHTC equity payment associated with the Property’s placed-in-service date.</td>
</tr>
<tr>
<td>Amount</td>
<td>Maximum of 80% of aggregate LIHTC equity contribution.</td>
</tr>
<tr>
<td>Funding Conditions</td>
<td>No performance hurdles or Property performance benchmarks tied to bridge loan payments.</td>
</tr>
</tbody>
</table>
### LIHTC Equity Bridge Loan Requirements

| Note | • Non-recourse to Borrower.  
|      | • Fixed or variable rate. |
| Guaranty (Repayment or Completion) | Must be subordinated to any Guaranty in favor of Fannie Mae. |

### Bridge Loan Collateral Types (multiple types allowed)

| Assignment of Rights to Capital Contribution from LIHTC Equity Investor | Acceptable | Acceptable | Unacceptable |
| Assignment of Development Fee | Acceptable | Acceptable | Acceptable |
| Subordinate Security Instrument | Unacceptable | Unacceptable | Unacceptable |
| Assignment of General or Limited Partnership Interests | Acceptable if Bridge Lender has LIHTC experience | Acceptable if Bridge Lender has LIHTC experience | • Acceptable for general partnership Interests  
| | | | • Unacceptable for limited partnership Interests |

### Section 705

Restrictive Covenants and Affordable Regulatory Agreements

**Requirements**

For MAH Properties and non-MAH Properties, the Affordable Regulatory
Agreement, except for a HUD Use Agreement, must be subordinated to the Lien of the Security Instrument if the agreement:

- grants rights, remedies, or powers similar to that of a secured creditor to any aggrieved party;
- impairs the Lien rights or priority of the Lien of the Security Instrument;
- contains any Borrower obligations other than the affordability restrictions;
- contains any rights or remedies to enforce the affordability restrictions other than specific performance or injunctive relief; or
- does not terminate upon Mortgage Loan foreclosure.

To subordinate the Affordable Regulatory Agreement to the Security Instrument Lien

- use an approved Subordination Agreement, or
- for an Affordable Regulatory Agreement with a subordinate loan, use Subordination Agreement (Affordable) (Form 6456).

**Guidance**

The rights, remedies, and powers of a secured creditor would typically include:

- the ability to appoint a receiver;
- the right to collect rents directly from the mortgaged property;
- the right to take possession of the mortgaged property;
- limitations on transferring title to you or to a subsequent transferee by foreclosure or deed in lieu;
- no requirement to give you notice of violations of or amendments to the Affordable Regulatory Agreement; and
- the ability to remove or replace the Property manager without your prior consent.

### Section 706  ROAR Loan

<table>
<thead>
<tr>
<th>706.01</th>
<th>Generally</th>
</tr>
</thead>
</table>

**Requirements**

You must ensure any ROAR Loan:

- is a Mortgage Loan or Credit Enhancement Mortgage Loan using a Credit
Enhancement Instrument;
- has a fixed rate;
- has a minimum Mortgage Loan amount of $5 million; and
- is secured by an MAH Property that:
  - currently has Stabilized Residential Occupancy, but will likely experience tenant displacement significant enough to lower the Underwritten DSCR, calculated using the Gross Note Rate, below the required DSCR set forth in Form 4660; and
  - will undergo repairs, replacements, or improvements costing $10,000 per unit or more (based on the total number of residential units at the Property), or qualifies as a Moderate Rehabilitation Property.

### 706.02 Timing

**Requirements**

Within 18 months after the Mortgage Loan Origination Date
- the ROAR Work must be completed, and
- Restabilized Residential Occupancy must be achieved.

### 706.03 General Underwriting

**Guidance**

In addition to complying with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans, you should also review and evaluate:
- the reasonableness of the estimated cost of the ROAR Work and the completion schedule;
- whether the ROAR Work can be completed and the Restabilized Residential Occupancy achieved within 18 months after the Mortgage Loan Origination Date;
- the Borrower’s experience in developing or rehabilitating properties similar to the ROAR Property;
- the tenant relocation plan, including budget and schedule;
- the ROAR Work budget, including monthly sources and uses during the rehabilitation period;
- any construction risks;
- the LIHTC investors’ financial strength, experience, and reputation; and
- the projected rent levels relative to market rents.

## 706.04 Additional Underwriting and Loan Documents

### Requirements

You must underwrite the ROAR Loan per the following table.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwritten NCF</td>
<td>GPR must comply with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703.01: Underwritten NCF; Underwritten NCF can be based on the Restabilized Residential Occupancy and normalized operating expenses achievable within 18 months after the Mortgage Loan Origination Date.</td>
</tr>
<tr>
<td>Appraisal</td>
<td>The Appraisal must include an opinion of the value of the Property on both an as is and an as completed basis that incorporates the ROAR Work to be completed after the Mortgage Loan Origination Date.</td>
</tr>
<tr>
<td>Occupancy During ROAR Work</td>
<td>Physical Occupancy: minimum of 50%; and Economic Occupancy: minimum of 50%.</td>
</tr>
<tr>
<td>Minimum DSCR During ROAR Work</td>
<td>Using the ROAR Stressed NCF, actual fixed interest rate, and maximum loan amount based on the as completed value</td>
</tr>
<tr>
<td></td>
<td>• 0.75 on an amortizing basis, or • 1.00 on an interest-only basis, if applicable.</td>
</tr>
<tr>
<td>Rehabilitation Reserve Agreement</td>
<td>Required.</td>
</tr>
<tr>
<td>Key Principal Guaranties</td>
<td>The Key Principal must execute a • Completion Guaranty (Form 6018), and • an operating deficit guaranty.</td>
</tr>
</tbody>
</table>
### Topic Description

**Letter of Credit**

Any Letter of Credit must:

- comply with Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit; and
- equal at least 125% of the difference between the maximum Mortgage Loan amount based on - the as completed value, and - the as is value.

**Additional Credit Support**

May be required.

**Underwriting Fee**

You must:

- charge the Borrower an underwriting fee equal to 3 basis points of the Mortgage Loan amount; and
- pay that amount to Fannie Mae.

## Section 707 HAP Contract Properties

### 707.01 Properties with Both HAP Contracts and LIHTC Units

**Requirements**

For a Mortgage Loan secured by an MAH Property or a Credit Enhancement Mortgage Loan, if the Property has both HAP contracts and LIHTC units, you must underwrite the Mortgage Loan using 1 of the following options.

<table>
<thead>
<tr>
<th>Choice</th>
<th>Requirements</th>
</tr>
</thead>
</table>
| Option 1 | Underwrite the rents from HAP contract units using the lowest of

- market rents,
- HAP contract rents, and
- applicable LIHTC rents.

Applicable LIHTC rents are the lower of

- maximum allowable LIHTC rents minus utility allowances, and
- actual rents in place for occupied units subject to a LIHTC Affordable Regulatory Agreement. |
## Choice Requirements

<table>
<thead>
<tr>
<th>Option 2</th>
<th>Underwrite the rents from HAP contract units using the additional income above the LIHTC rents (LIHTC overage) if:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• at least 20% of the Property’s units are subject to a project-based HAP contract;</td>
</tr>
<tr>
<td></td>
<td>• the HAP contract rents are less than or equal to market rents;</td>
</tr>
<tr>
<td></td>
<td>• the weighted average LIHTC unit rents are least 10% below market;</td>
</tr>
<tr>
<td></td>
<td>• the MAH Property is located in a market or submarket with 90% or greater economic occupancy, both for market rate and MAH Properties; and</td>
</tr>
<tr>
<td></td>
<td>• the Sponsor has experience and success owning and operating properties with HAP contracts.</td>
</tr>
</tbody>
</table>

If the HAP contract expires before the Mortgage Loan Maturity Date, you must ensure the Property’s Underwritten DSCR is greater than or equal to:

- 1.05 based on the LIHTC rents, and
- 1.10 based on the LIHTC rents after the HAP contract expires.

---

### 707.02 Restabilization Reserve

**Requirements**

For all Tier 2 and Tier 3 Mortgage Loans, you must establish a Restabilization Reserve for an MAH Property that has a HAP contract if the HAP contract term (excluding any annual or incremental government appropriation conditions) expires before the Mortgage Loan Maturity Date.

The Restabilization Reserve must:

- equal the monthly Mortgage Loan P&I, multiplied by the greater of
  - 6 months, or
  - the lease-up period determined by the market study per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703.02B: Market Study; and

- remain in place until
  - the Property achieves underwritten occupancy for 90 days at market rate rents, or
  - the HAP contract is renewed with an expiration date after the
Mortgage Loan Maturity Date.

You may eliminate the Restabilization Reserve if the:

- weighted average LIHTC unit rents are at least 10% below market;
- MAH Property is located in a market or submarket with 90% or greater economic occupancy, both for market rate and MAH Properties; and
- Sponsor has experience and success owning and operating properties with HAP contracts.

### 707.03 HAP Contract Review Sheet

**Requirements**

Before you Deliver the Mortgage Loan, you must:

- complete the Section 8 Housing Assistance Payments (HAP) Contract Review Sheet and Certification (Form 6422); and
- confirm that all conditions for approval are met.

### Section 708 Refinancing Section 236 Properties – IRP is Maintained

**Requirements**

For Fannie Mae to consider the cash flow from an IRP, the Borrower must decouple the IRP from the existing Section 236 note and mortgage by

- prepaying the Section 236 Loan, and
- having the IRP transferred to a new Mortgage Loan (which will be then considered a Section 236 Loan for purposes of continuing the IRP).

### 708.01 No Additional Proceeds

**Requirements**

If the Borrower is not seeking additional proceeds based on the IRP, you must exclude the amount of the IRP from the LTV and Underwritten DSCR.

### 708.02 Additional Proceeds from Mortgage Loan

**Requirements**

If the Borrower is seeking additional proceeds from the Mortgage Loan
based on the IRP, then you must ensure that:

- The Mortgage Loan has equal monthly payments of P&I.
- The portion of the Mortgage Loan sized based on the Underwritten NCF meets Fannie Mae's LTV and Underwritten DSCR requirements without considering the IRP cash flow.
- The portion of the Mortgage Loan sized based on the IRP cash flow has an Underwritten DSCR of at least 1.00.
- The financing structure reflects the remaining term of the IRP through a bifurcated note or amortization structure.

In a Forward Commitment transaction, if the IRP is decoupled from the original Section 236 Loan, you do not need to ensure principal amortization during the construction phase.

### 708.03 Additional Proceeds from Other Sources

**Requirements**

If the Borrower is seeking additional proceeds from sources other than the Mortgage Loan based on the IRP, you must:

- factor the debt into the Property’s overall LTV; and
- comply with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704: Subordinate Financing.

### Section 709 LIHTC Properties – Lender Equity Interest

**Requirements**

Fannie Mae will only purchase a Mortgage Loan secured by a LIHTC Property in which you are an equity investor (directly or indirectly) in the Borrower if the following conditions are met:

- Your equity interest in the Borrower is solely for obtaining the LIHTCs in the Property, and you have no
  - management authority for the Property, or
  - equity interest (other than the LIHTCs) in
    - the Borrower,
    - any Key Principal,
    - any Person holding a Controlling Interest in the Borrower or Key Principal,
Section 710  Transactions with Fannie Mae Debt and Equity Interests

710.01  Transactions Funded with Tax-Exempt Bond Proceeds

☑ Requirements

If a Mortgage Loan will be funded with tax-exempt bond proceeds and the Property securing the Mortgage Loan qualifies for LIHTCs, you must confirm:

■ If Fannie Mae owns or plans to acquire a direct or indirect equity interest in the Borrower, it does not own or intend to acquire an interest in the tax-exempt Bonds.

■ If Fannie Mae owns or plans to acquire an interest in the tax-exempt Bonds, it does not own or intend to acquire a direct or indirect equity interest in the Borrower.

710.02  Fannie Mae Credit-Enhanced Tax-Exempt Bond Issuance
Requirements

You must confirm that if Fannie Mae credit enhances tax-exempt Bonds issued to fund a Mortgage Loan, it does not also own or intend to acquire a direct equity interest in the Borrower.

If Fannie Mae owns or intends to acquire an indirect equity interest in the Borrower through a fund, you must confirm:

- Fannie Mae’s indirect equity interest in the Borrower is less than 50%;
- in the case of a LIHTC transaction:
  - the IRS documentation filed in connection with the Bond issuance shows that none of the Bond proceeds were applied to pay any portion of Fannie Mae’s credit enhancement fee;
  - the Bond issuer and the Borrower have either
    — entered into a LIHTC agreement that acknowledges Fannie Mae’s equity interest, or
    — consented in writing to Fannie Mae’s equity interest; and
  - any required notices to the Borrower and the issuer under a LIHTC agreement have been provided; and
- in the case of a non-LIHTC transaction, the issuer and the Borrower have consented in writing to Fannie Mae’s equity interest.

Section 711  FHA Risk Sharing

711.01 Description

Guidance

Fannie Mae and the HUD have a risk sharing agreement to share risk on Mortgage Loans for certain MAH transactions. HUD’s risk sharing is in the form of mortgage insurance from FHA. HUD takes 50% of the risk of loss, and the remaining 50% of the loss is shared by you and Fannie Mae.

711.02 Eligibility

711.02A Borrowers, Key Principals, Guarantors, and Principals

Requirements

You must ensure that the Borrower (and each Key Principal, Guarantor, and Principal) is not on the most current “List of Parties Excluded from Federal Procurement or Nonprocurement Programs”.

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Generally

**Requirements**

You must ensure:

- All FHA Risk Sharing Mortgage Loans are fixed rate with no interest-only period.
- The minimum Mortgage Loan term is 15 years.
- The Property has an affordability restriction where
  - at least 20% of the units are rent-restricted and occupied by families with incomes no more than 50% of AMI as adjusted for family size, or
  - at least 40% (25% in New York City) of the units are rent-restricted and occupied by families with incomes no more than 60% of AMI as adjusted for family size.
- The residential unit's gross rent is restricted to no more than 30% of the unit's Imputed Income Limitation per Section 42 of the Internal Revenue Code.
- Rent, income, and/or occupancy restrictions are in effect for at least the term of the Mortgage Loan. For MAH Properties with remaining affordability restrictions of less than 18 years, the affordability restrictions will be considered senior to the Lien of the Mortgage Loan when enforcing restrictions.

**Guidance**

The Property is not located in:

- a 500-year floodplain and likely occupied by tenants who may not be sufficiently mobile to avoid injury or death during floods or storms;
- a Federal Emergency Management Agency-mapped Special Flood Hazard Area 100-year floodplain (except where no buildings or Improvements other than minor grubbing) will be in the floodplain and the floodplain area will be permanently dedicated to non-development;
- the Coastal Barrier Resources System per the Coastal Barrier Resources Act, 16.U.S.C.3501; and
- a Runway Clear Zone (at a civil airport) or Clear Zone (at a military airfield) if the Property is newly constructed or substantially rehabilitated.

**Cash Out**
There is no limit on the amount of cash out in an FHA Risk Sharing transaction.

### 711.03 Mortgage Insurance Premium

- **Requirements**

  Your pricing for an FHA Risk Sharing Mortgage Loan must include a sufficient amount to pay the mortgage insurance premium due to FHA.

- **Guidance**

  Fannie Mae will make this FHA premium payment on or before its due date.

### 711.04 Subsidy Layering Review

- **Requirements**

  You must ensure the Borrower obtains a subsidy layering review when required by federal laws. FHA Risk Sharing Mortgage Loans are a source of federal government assistance.

- **Operating Procedures**

  After the subsidy layering review is complete, the applicable reviewing office will issue a certification to the Borrower stating the total amount of governmental assistance is not more than is necessary to provide affordable housing after taking into account other government assistance. You must receive the certification before:

  - Rate Lock, or
  - obtaining a Commitment for a tax-exempt Bond transaction.

### 711.05 Lender FHA Risk Sharing Reserve and Loss Sharing Modifications

- **Operating Procedures**

  If a Mortgage Loan was approved for FHA Risk Sharing, you must indicate an “FHA risk sharing” Mortgage Loan Type on the Mortgage Loan Certificate (Form 6505).
Chapter 8  Cooperative Properties

Section 801  Description

☑️ Requirements

A Cooperative Property is a multifamily residential property owned by a Cooperative Organization.

Section 802  Eligible Mortgage Loans

☑️ Requirements

Fannie Mae will only purchase a Cooperative Mortgage Loan if each shareholder or other equity owner in the Cooperative Organization is granted the right to occupy a unit in the Property under a proprietary lease or other occupancy agreement.

You must:

- Examine the organizational documents of the Cooperative Organization.
- Ensure that the terms of these documents allow you to originate a Loan secured by the Property in compliance with the Guide.
- Review the composition and experience of the Cooperative Organization’s Board of Directors or managers.

802.01  Basic Conditions

☑️ Requirements

You must ensure for all the following:

- The Mortgage Loan has a fixed rate.
- Any commercial lease is determined to be a Material Commercial Lease based on 5% or more of total gross income calculated on a Cooperative Market Rental Basis.
- The Property is located in a Cooperative Property Eligible Market per Form 4660.
- The Property has an overall condition of 2 or better, as shown on the Comprehensive Assessment Addendum tab of the MBA Standard Inspection Form.

802.02  Financial Conditions
Requirements

You must ensure all of the following:

- You have reviewed at least 3 years of the Property's financial operations.
- The Property's financial operations achieved at least a 0.90 DSCR on an Actual Cooperative Property Basis for 2 of the previous 3 years.
- The Board of Directors or managers of the Cooperative Organization approve any increase in the Cooperative Maintenance Fee prior to closing; and any scheduled annual increase cannot exceed 10%.
- A Cooperative Property Sponsor may not own interests to occupy or lease more than 40% of the units in the Cooperative Property, unless the following criteria are met:
  - You deem the financial strength, experience, qualifications, character, and credit history of the Cooperative Property Sponsor acceptable, per the applicable provisions for Key Principals in Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals or Part III, Chapter 9: Small Mortgage Loans.
  - The Cooperative Organization consistently demonstrates sound financial operations and market acceptability.
  - There is no on-going litigation between the Cooperative Organization and the Cooperative Property Sponsor.
  - The aggregate annual rental income from the Cooperative Property Sponsor-owned units is greater than the aggregate annual Cooperative Maintenance Fees on those units.

802.03 Property Management Conditions

Requirements

You must ensure all of the following:

- Except for Small Mortgage Loans, the Property must be managed by a professional property management firm that currently manages:
  - at least 3 other Cooperative Properties in the same market as the Property;
  - a minimum of 350 Cooperative Property units in the aggregate; and
  - another Cooperative Property of similar size to the Property.
- For Small Mortgage Loans, a Property with more than 25 units must be managed by a property management firm with at least 3 years of
experience managing a Cooperative Property of similar size.

Guidance

The Borrower may manage a Property securing a Small Mortgage Loan with 25 units or less.

### 802.04 Other Considerations

**Guidance**

A Cooperative Mortgage Loan does not have to comply with the following:

- identification of a Key Principal or Principal and the applicable related analysis and obligations per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, or Part III, Chapter 9: Small Mortgage Loans;
- Ground Lease Rents per Part II, Chapter 1: Attributes and Characteristics, Section 104.02: Ground Lease Rents;
- Minimum Occupancy per Part II, Chapter 1: Attributes and Characteristics, Section 105: Minimum Occupancy;
- Occupancy per Part III, Chapter 9: Small Mortgage Loans, Section 903: Occupancy; and
- Property Management per Part III, Chapter 9: Small Mortgage Loans, Section 906: Property Management.

### Section 803 Underwriting

**803.01 Financial Operation**

**Requirements**

As part of your underwriting analysis, you must:

- Examine the year-to-date operational budget.
- Collect, review, and analyze audited financial/operating statements for the last 3 years of operations.
- Ensure that the average Cooperative Maintenance Fee Accounts Receivable for the last 3 years is less than 3% of the annual Cooperative Maintenance Fees.
- Ensure that the Cooperative Operating Reserve at closing is at least 10%
of the annual Cooperative Maintenance Fees.

### 803.02 Property Valuation

**Requirements**

You must obtain an Appraisal per Part II, Chapter 2: Valuation and Income that provides a value of the Cooperative Property on a Cooperative Market Rental Basis for determining the LTV Ratio per Form 4660.

**Guidance**

You may obtain an Appraisal per Part II, Chapter 2: Valuation and Income that provides a value of the Cooperative Property on a Cooperative Gross Sellout Value basis.

### 803.03 Subordinate Debt

**Requirements**

You must ensure that any existing debt secured by a Lien on a Cooperative Property complies with Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402: Supplemental Mortgage Loans. You must also calculate the

- Underwritten DSCR per Part III, Chapter 8: Cooperative Properties, Section 804.02: Cooperative Market Rental Basis DSCR (Underwritten DSCR), and

- Actual Cooperative DSCR per Part III, Chapter 8: Cooperative Properties, Section 804.04: Actual Cooperative Property DSCR.

### Section 804 Income Analysis

#### 804.01 Cooperative Market Rental Basis NCF (Underwritten NCF)

**Requirements**

You must review the projected operations of the Cooperative Property on a Cooperative Market Rental Basis (as reflected in the Appraisal).

You must ensure the Cooperative Market Rental Basis NCF includes the minimum economic vacancy and Replacement Reserve expense per the applicable Underwritten NCF calculation in Part II, Chapter 2: Valuation and Income or Part III, Chapter 9: Small Mortgage Loans.
### 804.02 Cooperative Market Rental Basis DSCR (Underwritten DSCR)

#### Requirements

You must calculate Underwritten DSCR per the following table.

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>Underwritten NCF as calculated on a Cooperative Market Rental Basis.</td>
</tr>
<tr>
<td>2</td>
<td>DIVIDED BY</td>
<td>Annual debt service for the Mortgage Loan amount. You must base debt service on a level debt service payment, including amortization, and the greater of • the actual note rate, or • the required Underwriting Interest Rate Floor per Form 4660. If the Property has subordinate debt, the debt service must include P&amp;I to cover the maximum principal amount of the outstanding subordinate debt.</td>
</tr>
</tbody>
</table>

### 804.03 Actual Cooperative Property NCF

#### Requirements

You must use the following table to calculate Actual Cooperative Property NCF.

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>GROSS RENTAL INCOME current scheduled monthly Cooperative Maintenance Fees for all units (multiplied by 12).</td>
</tr>
</tbody>
</table>
### REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>PLUS</td>
<td>Income from Cooperative Organization-owned units equal to the lesser of</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• actual rents in place for occupied units, plus market rents for vacant units, or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• an equivalent Cooperative Maintenance Fee based on similar units in the Property (multiplied by 12).</td>
</tr>
<tr>
<td>3</td>
<td>PLUS</td>
<td>Proposed increase in annual Cooperative Maintenance Fee income.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>EQUALS</strong> GROSS POTENTIAL RENT (GPR)</td>
</tr>
<tr>
<td>4</td>
<td>MINUS</td>
<td>Vacancy included at Fannie Mae's sole discretion for any Pre-Review Mortgage Loan.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>EQUALS</strong> NET RENTAL INCOME (NRI)</td>
</tr>
</tbody>
</table>

#### CALCULATION OF OTHER INCOME

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>PLUS</td>
<td>Actual other income (including any flip fees, sales fees, or any special assessments collected for operational expenses) as described in the applicable Underwritten NCF calculation detailed in Part II, Chapter 2: Valuation and Income, or Part III, Chapter 9: Small Mortgage Loans.</td>
</tr>
</tbody>
</table>

#### CALCULATION OF COMMERCIAL INCOME

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>PLUS</td>
<td>Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable).</td>
</tr>
<tr>
<td>7</td>
<td>PLUS</td>
<td>Actual income from STR units.</td>
</tr>
<tr>
<td>8</td>
<td>MINUS</td>
<td>Commercial income economic vacancy included at Fannie Mae's sole discretion for any Pre-Review Mortgage Loan. A 10% vacancy rate must be applied to any STR income.¹</td>
</tr>
</tbody>
</table>

¹ If net commercial income is greater than 20% of EGI on a Cooperative Market Rental Basis, then reduce to 20% of EGI on a Cooperative Market Rental Basis.

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td><strong>EQUALS</strong> EFFECTIVE GROSS INCOME (EGI)</td>
</tr>
</tbody>
</table>

#### CALCULATION OF OPERATING EXPENSES
### REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 9    | MINUS    | Line-by-line stabilized operating expenses, including management fee and insurance. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by short-term positive or negative factors. Non-recurring, extraordinary expenses must not be included. You must assess:  
   • past operating history;  
   • market expenses;  
   • actual service contracts in place; and  
   • the Property's budget. |

All expenses associated with STR should be underwritten in their respective expense line items.
**REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW**

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>MINUS</td>
<td>Real estate taxes based on the greatest of:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• actual future tax bill(s) covering a full calendar year;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• prior full years taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• in California, the greater of the assessed value or the Mortgage Loan amount, multiplied by the millage rate, plus any special assessments.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>If the Property has real estate tax abatements, exemptions, or deferrals, they must:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• be in effect at closing, per written documentation from the state or local tax assessor; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• survive a foreclosure of the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, or deferral benefit (e.g., it is tied to the operation of the Property and not the identity or structure of the owner).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>If the timeframe for the real estate tax abatement, exemption, or deferral is shorter than the Mortgage Loan term, you must consider</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• a Bifurcated Mortgage Loan structure (i.e., 2 notes secured by a single first Lien Security Instrument),</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• an amortization schedule that accommodates the elimination of the abatement, or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• providing clear justification and support in the refinance analysis.</td>
</tr>
</tbody>
</table>
### REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 11   | MINUS    | All other expenses as described in Underwritten NCF calculation detailed in the applicable Part II, Chapter 2: Valuation and Income, or Part III, Chapter 9: Small Mortgage Loans, except for property insurance and management fees.  
For STR:  
• any taxes or fees imposed by the local jurisdiction; and  
• if applicable, the difference in actual lease STR income and the Cooperative Maintenance Fee for similar units in the Property with a term of more than 30 days.  
For example, if actual lease STR income for a unit is $1,000 and the comparable Cooperative Maintenance Fee for that unit is $900, then deduct $1,200 ($1,000 - $900 = $100 X 12 months) as an other expense. |
|      | EQUALS   | UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI) |
| 12   | MINUS    | Replacement Reserve expense included at Fannie Mae's sole discretion for any Pre-Review Mortgage Loan. |
|      | EQUALS   | ACTUAL COOPERATIVE PROPERTY NET CASH FLOW (ACTUAL COOPERATIVE NCF) |

#### 804.04 Actual Cooperative Property DSCR

- **Requirements**

You must calculate the Actual Cooperative Property DSCR per the following table.
## ACTUAL COOPERATIVE PROPERTY DSCR

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>Actual Cooperative NCF per Part III, Chapter 8: Cooperative Properties, Section 804.03: Actual Cooperative Property NCF.</td>
</tr>
</tbody>
</table>
| 2 | DIVIDED BY | Annual debt service for the Mortgage Loan amount.  
You must base debt service on a level debt service payment at the actual note rate, including amortization.  
Use interest-only payments only for a full-term interest-only Mortgage Loan.  
If the Property has subordinate debt, the debt service must include P&I to cover the actual UPB of the outstanding subordinate debt. Use interest-only payments only for full-term interest-only subordinate debt. |

### Section 805  Limited Equity Cooperative Properties

**☑️ Requirements**

In addition to the rest of this Chapter, you must ensure that Limited Equity Cooperative Properties meet the following:

- **Cooperative Maintenance Fees:** You must ensure that:
  - monthly Cooperative Maintenance Fees are not more than 90% of comparable unit market rents; and
  - if there are restrictions from the HUD or others, then both HUD and the Limited Equity Cooperative Property’s Board of Directors or managers must approve all Cooperative Maintenance Fee increases before the Commitment Date.

- **Cooperative Operating Reserve:** You must require a reserve equal to at least 6 months of P&I payments on the Mortgage Loan.

- **HUD IRP Loan:** You must require an IRP reserve equal to 2 months of IRP payments for the life of the IRP Loan. The funds in the IRP reserve may only be used to compensate for late IRP payments.
Actual Cooperative Property NCF: You must calculate Actual Cooperative Property NCF per Part III, Chapter 8: Cooperative Properties, Section 804.03: Actual Cooperative Property NCF, but the following exceptions apply:

- Economic vacancy: Use the greater of
  - 5%, or
  - the highest level experienced by the Property during the last 3 years.

- Actual operating expenses: Equal to 103% of the previous year's operating expenses.

- Replacement Reserve: Use the greater of
  - the scheduled Replacement Reserve per unit as determined by a PCA, or
  - $250 per unit per year.

Unit Turnover: Total unit turnover must not be greater than 20%.

Escrows: You must require monthly deposits for real estate taxes, insurance, and the Replacement Reserve.

Cooperative Property Sponsor: There must be no Sponsor-owned units.

Property management experience: The Property management firm must have Limited Equity Cooperative Property management experience. If HUD restrictions are in-place, the firm must also have a history of successfully complying with HUD restrictions and reporting requirements.

Guidance

You should consider the following:

- Cooperative Operating Reserve: You may include a similar reserve held by another independent lender if the funds are released to you.

- Actual Cooperative Property NCF: 3% trending is not required for trailing 12-month or year-to-date annualized operating expenses.

- Unit Turnover: Unit turnover occurs when a shareholder or tenant chooses to vacate a unit or terminate a lease during the past 3 years.
**Chapter 9  Small Mortgage Loans**

**Section 901  Generally**

<table>
<thead>
<tr>
<th>901.01 Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Requirements</td>
</tr>
<tr>
<td>A Small Mortgage Loan is a Mortgage Loan with an original loan amount of less than or equal to $9 million.</td>
</tr>
</tbody>
</table>

| Guidance |
| A Small Mortgage Loan may be underwritten per: |
| - Part I and this Chapter; or |
| - Part I and Part II, as for a conventional Mortgage Loan. |

<table>
<thead>
<tr>
<th>901.02 Applicability</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Requirements</td>
</tr>
<tr>
<td>You may use this Chapter to underwrite conventional Mortgage Loans and the following products:</td>
</tr>
<tr>
<td>- MH Communities;</td>
</tr>
<tr>
<td>- MAH Properties; and</td>
</tr>
<tr>
<td>- market rate Cooperative Properties that are not Limited Equity Cooperative Properties.</td>
</tr>
</tbody>
</table>

**Section 902  Key Principal Guaranty Obligation**

| ✓ Requirements |
| You must obtain a Non-Recourse Guaranty (Form 6015) from each Key Principal. |

**Section 903  Occupancy**

| ✓ Requirements |
| Small Mortgage Loans must achieve Stabilized Residential Occupancy as follows: |
If the Property contains...

<table>
<thead>
<tr>
<th>If the Property contains...</th>
<th>Then it must have...</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 or more units</td>
<td>at least 90% physical occupancy by Qualified Occupants for the 90 days immediately before the Commitment Date.</td>
</tr>
</tbody>
</table>
| Less than 10 units         | • no more than 1 vacant unit as of the Commitment Date, and  
                               • an average occupancy by Qualified Occupants of at least 90% for the 12-month period immediately before the Commitment Date. |

If a Small Mortgage Loan is secured by an MH Community, then Stabilized Residential Occupancy must comply with Part II, Chapter 1: Attributes and Characteristics, Section 105: Minimum Occupancy.

**Section 904**

**Corporate Leases; Leases to One Entity**

** Guidance**

Entity leases are permitted; but you should analyze the effect of leasing

- more than 10% of the total residential units in the Property to corporations, partnerships, trusts, and other entities, or

- more than 5% of the total residential units to any single corporation, partnership, trust, or other entity.

Entity leases of residential units for residential purposes are considered residential space.

**Section 905**

**Property Income Analysis**

**905.01**  Small Mortgage Loan Underwritten NCF (Underwritten NCF)

** Requirements**

You must calculate Underwritten NCF as follows:

- for a MAH Property, per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703: Property Income and Underwriting; except that Replacement Reserves may be calculated per the table in this Section;

- for a MH Community, per Part III, Chapter 6: Manufactured Housing
Communities, Section 606: Property Income and Underwritten NCF;  
- for a Cooperative Property, per Part III, Chapter 8: Cooperative Properties, Section 804: Income Analysis; and  
- for all conventional Small Mortgage Loans, you must use the following table.

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 1    |          | **GROSS RENTAL INCOME** the lesser of  
|      |          | • actual rents in place, or  
|      |          | • market rents for occupied units, plus market rents for vacant units based on a current rent roll (multiplied by 12).¹ |
| 2    | PLUS     | To the extent deducted as an operating expense, rents for other non-revenue units. For example:  
|      |          | • model units deducted in the model apartment operating expense in the general and administrative category;  
|      |          | • owner-occupied units² deducted in the general and administrative category; and  
|      |          | • employee units³ deducted in the employee operating expense in the payroll and benefits category. |
| 3    | MINUS    | **GROSS POTENTIAL RENT (GPR)**  
| 4    | MINUS    | Premiums and corporate premiums.  
| 5    | MINUS    | Physical vacancy market rents for vacant units based on a current rent roll (multiplied by 12).⁴  
| 6    | MINUS    | Concessions the aggregate amount of forgone residential rental income from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc.⁴  
|      |          | Bad debt the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt.³ |
### REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EQUALS</td>
<td>NET RENTAL INCOME (NRI)</td>
</tr>
</tbody>
</table>

1(a) In the New York-Northern New Jersey-Long Island, NY-NJ-PA MSA, you may use actual rents in place plus projected increases for rent-regulated units that have rent increases scheduled before, or through, the first 12 months of the loan term. Any units subject to rent regulation on the Commitment Date must be treated as rent-regulated for this calculation even if converting to market rate after origination.

(b) For Properties located in New York City that are currently subject to the J51 Tax Incentive Program, you must ensure that the Gross Rental Income is calculated per Item 1 in Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.

2 You must deduct owner-occupied units as an expense unless

- the Mortgage Loan is Tier 3 or Tier 4, or
- the Property contains 24 or more units.

3 You must deduct as an expense the portion of the market rent used as employee compensation.

4 The total of Items 4, 5, and 6 must be greater than or equal to

- 3% of GPR for the New York-Northern New Jersey-Long Island, NY-NJ-PA and San Francisco-Oakland-Fremont, CA, Metropolitan Statistical Areas (MSAs), if supported by market and property operations, or
- 5% of GPR for all other MSAs.
# REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)

**Item** | **Function** | **Description**
--- | --- | ---
7 | PLUS | Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must:

- be stable;
- be common in the market;
- exclude one-time extraordinary, non-recurring items; and
- be supported by prior years.

You must assess the individual month’s other income within the prior full-year operating statement; or at a minimum, an operating statement covering at least the trailing 6 month's (annualized).

**CALCULATION OF COMMERCIAL INCOME**

8 | PLUS | Actual income from leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases.

9 | PLUS | Actual income from STR units.

10 | MINUS | 10% of the actual commercial space income (total of Items 8 plus 9).

11 | PLUS | Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections.

12 | PLUS | Laundry and vending, and all other income per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.

5 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.

**EQUALS** | **EFFECTIVE GROSS INCOME (EGI)**

**CALCULATION OF OPERATING EXPENSES**
### REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 13   | MINUS    | Line-by-line stabilized operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a  
• lease-up,  
• rehabilitation, or  
• other short-term positive or negative factors.  
Non-recurring, extraordinary operating expenses must not be included.  
You must assess:  
• past operating history;  
• the appraiser's expense analysis;  
• all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and  
• the Borrower's budget (in the case of an acquisition).  
You must:  
• analyze historical operations at the Property;  
• apply an appropriate increase over the prior years operations in determining an estimate; and  
• include all STR-related expenses in their respective expense line items, including  
  - cleaning,  
  - furnishing, and  
  - repairs.  
You cannot include any operating expense that reflects blanket or bulk discounts that benefit the Borrower or Key Principal (e.g., blanket property or casualty insurance policies, or utilities purchased in bulk). Operating expenses must reflect the Property expenses on a stand-alone basis. |
## REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>MINUS</td>
<td>Property management fee equal to the greatest of:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 3% of EGI;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• actual property management fee (exclude any portion of a property management fee that is subordinated to the Mortgage Loan); or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• market property management fee.</td>
</tr>
<tr>
<td>15</td>
<td>MINUS</td>
<td>Real estate taxes per Item 17(b) in Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF).</td>
</tr>
<tr>
<td>16</td>
<td>MINUS</td>
<td>Insurance equal to:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 110% of the current expense, for insurance policies with a remaining term less than 6 months.</td>
</tr>
<tr>
<td>17</td>
<td>MINUS</td>
<td>Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses as detailed in Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>EQUALS</strong> UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)</td>
</tr>
</tbody>
</table>
### REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 18   | MINUS    | Replacement Reserve expense equal to at least\(^6\):  
* $200 per unit, for a Property with an overall rating of 1,  
* $250 per unit, for a Property with an overall rating of 2, or  
* $300 per unit, for a Property with an overall rating of 3.  

The Property ratings are the ratings reported on the Comprehensive Assessment Addendum (Comp Assmt Addendum) tab of the MBA Standard Inspection Form.  

<table>
<thead>
<tr>
<th></th>
<th>EQUALS</th>
<th>UNDERWRITTEN NET CASH FLOW (UNDERWRITTEN NCF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>If a PCA was completed, the Replacement Reserve must equal the amount required per Part II, Chapter 4: Inspections and Reserves, subject to a minimum of $200 per unit.</td>
<td></td>
</tr>
</tbody>
</table>

### 905.02 Underwritten DSCR

**Requirements**

You must calculate Underwritten DSCR per the following table.

### UNDERWRITTEN DSCR\(^1,2\)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>Underwritten NCF as calculated in Part III, Chapter 9: Small Mortgage Loans, Section 905.01: Small Mortgage Loan Underwritten NCF (Underwritten NCF).</td>
</tr>
</tbody>
</table>
### UNDERWRITTEN DSCR

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>DIVIDED BY</td>
<td>Annual debt service for the Mortgage Loan amount. You must base debt service on a level debt service payment, including amortization, and the greater of • the actual note rate, or • the required Underwriting Interest Rate Floor.</td>
</tr>
</tbody>
</table>

1 For a Small Mortgage Loan secured by an MAH Property underwritten per this Chapter, you must comply with the minimum DSCR requirement for an MAH Property per Form 4660.

2 For shorter amortization terms, you must • calculate the Underwritten DSCR based on the shorter period, and • comply with the minimum DSCR requirement per Form 4660.

The mandatory NRI adjustments in Part II, Chapter 2: Valuation and Income, for Properties with declining NRI do not apply.

3 For a Small Mortgage Loan secured by an MAH Property underwritten per this Chapter, you must comply with the required Underwriting Interest Rate Floor for an MAH Property per Form 4660.

---

### Section 906

**Property Management**

- **Requirements**

To ascertain the property management requirements, you must determine how many years of experience, as of the Commitment Date, the Borrower or any Key Principal has owning or managing residential rental properties, based on the following:

<table>
<thead>
<tr>
<th>Similar in Size</th>
<th>Unit Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Properties</td>
<td>• 1 multifamily property with 5 50 units, or • concurrently owning or managing at least 10 single-family rental units.</td>
</tr>
<tr>
<td>Medium Properties</td>
<td>1 multifamily property with 51 100 units.</td>
</tr>
</tbody>
</table>
As of the Commitment Date, a non-Local Borrower must have at least 2 years of multifamily ownership or property management experience with a property similar in size or larger than the Property.

Property management requirements are as follows.

<table>
<thead>
<tr>
<th>Property Size</th>
<th>Professional property management or qualified on-site manager required if...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10 residential units</td>
<td>• non-Local Borrower, or&lt;br&gt;• Local Borrower resides more than 100 miles from the Property.</td>
</tr>
<tr>
<td>10 or more residential units</td>
<td>• non-Local Borrower, or&lt;br&gt;• Local Borrower with less than 2 years of experience with a property similar in size or larger.</td>
</tr>
</tbody>
</table>

A professional property management company must have an office within 100 miles of the Property when the Borrower or all Key Principals primarily reside more than 100 miles from the Property.

**Guidance**

A professional property management company should use a written management agreement that complies with Part II, Chapter 1: Attributes and Characteristics, Section 112: Property Management and Agreement.

A qualified on-site manager

- is not required to be a Property resident,
- should generally be on-site during normal business hours, and
- for at least 2 years the before the Commitment Date, should have either successfully managed the Property or have demonstrated management experience with a property similar in size or larger than the Property.

### Section 907 Property Condition

907.01 Site Inspection by Lender or Other Third Party

☑️ Requirements
You must ensure:

- a physical inspection of the Property is performed (including any Property securing a Small Mortgage Loan that is also a Choice Refinance Loan);
- the physical inspection addresses special hazards, zoning, building and fire code violations, and regulatory compliance per the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099);
- the person performing the inspection and completing the MBA Standard Inspection Form meets the requirements for a PCA Consultant per Part II, Chapter 4: Inspections and Reserves, Section 402.03: Conducting the PCA, and is:
  - your employee;
  - an appraiser; or
  - a third-party inspector.

If a non-employee appraiser or other third-party inspector performs the physical inspection, you must also have an employee visit the Property.

The site inspection must provide you with enough information to complete the MBA Standard Inspection Form, including:

- an assessment of the current condition of the Property;
- an identification and cost estimate of any Immediate Repairs, which must be included in the appropriate Completion/Repair Agreement; and
- a general estimate of anticipated replacement and major maintenance needs.

For any Property consisting of multiple buildings, the site inspection must address the condition of all roofs, HVAC equipment, exterior façades, parking lots, exterior walkways, and balconies.

If a Mortgage Loan has a term greater than 10 years, then you must ensure that a new site inspection is performed in the 10th year of the loan term.

The date of the site inspection must meet the timing requirements for a PCA in Part II, Chapter 4: Inspections and Reserves, Section 402: Property Condition Assessment (PCA).

You must not Deliver any Small Mortgage Loan secured by a Property that has:

- an overall rating on the MBA Standard Inspection Form that does not comply with Part II, Chapter 4: Inspections and Reserves, Section 401: Site Inspection and Lease Audit; or
- deferred maintenance with repair costs greater than 10% of the UPB.
**907.02 Site Inspection by Borrower**

- **Requirements**
  
  You must ensure that the Borrower or the Key Principal:
  
  - Conducts a physical inspection of the Property.
  - Certifies in the Multifamily Underwriting Certificate (Form 6460) that the physical inspection has been performed.

**907.03 PCA**

- **Requirements**
  
  A PCA is required:
  
  - if the site inspection
    - notes structural or physical concerns, or
    - results in an overall rating of 3 being reported on the Comp Assmt Addendum tab of the MBA Standard Inspection Form; or
  - when a Replacement Reserve is required per Part III, Chapter 9: Small Mortgage Loans, Section 908: Replacement Reserve.

- **Guidance**
  
  When a PCA is required, you may use:
  
  - the Streamlined Property Condition Assessment Guidance (Form 4099.A), but the PCA must otherwise comply with Part II, Chapter 4: Inspections and Reserves, Section 402: Property Condition Assessment (PCA); and
  - the Streamlined PCA Requirements (Form 4099.A) instead of the MBA Standard Inspection Form, if you include the overall inspection rating as defined on the MBA Standard Inspection Form.

**Section 908 Replacement Reserve**

- **Requirements**
  
  You must require either full funding or alternative funding (per Part II, Chapter 4: Inspections and Reserves, Section 404.03: Alternative Replacement Reserve Funding) of the Replacement Reserve for any Tier
2 Small Mortgage Loan on a

- Property not located in an Eligible MSA per Form 4660, or
- Rent-Stabilized Property located in the New York-Newark-Jersey City, NY-NJ-PA MSA.

For all other Small Mortgage Loans, you must determine whether to require funding of the Replacement Reserve.

If you do not require full funding, then you and the Borrower must execute either

- the appropriate Modifications to Multifamily Loan and Security Agreement (Replacement Reserve – Partially or Fully Waived) (Form 6220), or
- the Modifications to Multifamily Loan and Security Agreement (Replacement Reserve – Alternative Funding) (Form 6221).

Section 909 Environmental Matters and Inspections

Requirements

Before the Commitment Date, you must:

- Obtain an Environmental Screening of the Property using the ASTM E-1528 protocol.
- Perform a physical site inspection of the Property.
- Notify the Appraiser of any Recognized Environmental Condition or “non-scope considerations” that would impact the value of the Property.
- Determine if an O&M plan is appropriate to address a Recognized Environmental Condition.
- Determine if the state where the Property is located has an environmental super-lien statute, and ensure that the Property conditions are not likely to result in such a lien.
- Disclose any actual or suspected environmental conditions not disclosed in the ESA.
- Evaluate the potential risk posed by any Recognized Environmental Conditions that could result in loss or liability to you, the Borrower, the Property, or Fannie Mae.
- Obtain a copy of any Phase I ESA that the Borrower has in its possession or can obtain.
- Determine, based on the findings of the environmental screening and analysis, whether a Phase I ESA is required and, if so, contract for the
When indicated, contract for a Phase II ESA.

- Disclose any knowledge of actual or suspected environmental problems.

**Guidance**

You may contract portions of your environmental responsibilities to qualified parties. The environmental screening and analysis may be completed by:

- the engineer conducting the PCA (if one was required);
- a qualified employee; or
- a qualified non-employee.

**Operating Procedures**

If a qualified individual performs the environmental screening and analysis, you must:

- Identify the individual.
- Ensure that the individual certifies each environmental analysis.
- Submit a certified copy of each environmental analysis with Folder II of the Multifamily Mortgage Loan Delivery Package Table of Contents (Form 6502.Folder.II).

### Section 910  Borrower, Key Principals, Guarantors, and Principals

**Requirements**

Except as described below, you must comply with all requirements for the Borrower, Key Principals, Guarantors, and Principals in Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals.

### 910.01  Borrower Organizational Structure

**Requirements**

Any individual Borrower must not be a Foreign Person.

Although a single asset entity is preferred, the Borrower may be a multi-asset entity.

**Guidance**
If the Borrower owns multiple assets, then you should obtain and underwrite the Borrower’s complete schedule of owned real estate assets. Your underwriting should include the nature, location, cash flows, outstanding mortgage debt, and contingent liabilities of each asset.

### 910.02 Co-Tenant Borrowers

#### Requirements

If a Co-Tenant Borrower is not an individual or a trust holding title to assets of an individual, each Key Principal must execute the applicable Guaranty per Part III, Chapter 9: Small Mortgage Loans, Section 902: Key Principal Guaranty Obligation.

A Co-Tenant Borrower must be

- an individual who is not a Foreign Person,
- a single-asset entity, or
- a multi-asset entity.

### 910.03 Key Principals

#### Requirements

You must ensure that any individual Key Principal is not a Foreign Person.

### 910.04 Principals

#### Requirements

For Small Mortgage Loans, a Principal is any person or entity that holds direct or indirect interests of 50% or more in the Borrower.

### 910.05 Financial Statements

#### Requirements

You must obtain

- a schedule of owned real estate assets, and
- signed financial statements.

Instead of signed financial statements, you may obtain an equivalent signed net worth statement or personal financial statement (such as a form bank application from the Borrower certifying to its financial condition) that
conforms to the aging requirements in Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals.

910.06 Net Worth and Liquid Assets

☑ Requirements

You must ensure that:

- the combined net worth of the Borrower and all Key Principals equals or exceeds the original principal amount of the Small Mortgage Loan; and

- the combined post-closing liquid assets (excluding any Small Mortgage Loan cash-out proceeds) of the Borrower and all Key Principals equal at least 9 monthly payments of P&I on the Small Mortgage Loan.

➡ Guidance

You should:

- for net worth, consider the impact of current, long-term, and contingent liabilities compared to the Small Mortgage Loan amount;

- for liquidity, exclude the following unless you have reasonable justification:
  - retirement funds (such as IRAs and 401Ks); and
  - promissory notes payable to the Borrower or a Key Principal, whether secured or unsecured; and

- verify liquid assets for the 2-month period immediately preceding the Borrower’s loan application by obtaining copies of all applicable:
  - bank statements; and
  - investment portfolio statements.

Section 911 Credit Reports

911.01 Credit Report

☑ Requirements

Within 90 days before the Commitment Date, you must obtain credit reports for all individual

- Borrowers,
Key Principals,
Guarantors, and
Principals

from at least 2 of the following credit information services:
Equifax;
Experian; or
TransUnion.

---

**FICO Scoring**

**Requirements**

You must ensure that all individual Borrowers, Key Principals, Guarantors, and Principals meet the Minimum FICO Requirement in Form 4660.

**Guidance**

To determine that the Minimum FICO Requirement is met, follow these guidelines:

<table>
<thead>
<tr>
<th>If...</th>
<th>Then...</th>
</tr>
</thead>
<tbody>
<tr>
<td>You obtain credit reports from 2 of</td>
<td>Use the lower of the 2 scores.</td>
</tr>
<tr>
<td>the 3 credit information services for</td>
<td></td>
</tr>
<tr>
<td>a Borrower, Key Principal,</td>
<td></td>
</tr>
<tr>
<td>Guarantor, or Principal</td>
<td></td>
</tr>
<tr>
<td>You obtain credit reports from all 3</td>
<td>Use the middle score.</td>
</tr>
<tr>
<td>credit information services, for a</td>
<td></td>
</tr>
<tr>
<td>Borrower, Key Principal, Guarantor, or</td>
<td></td>
</tr>
<tr>
<td>Principal</td>
<td></td>
</tr>
<tr>
<td>A Small Mortgage Loan has multiple</td>
<td>Use the average of their respective FICO scores.</td>
</tr>
<tr>
<td>individual Borrowers, Key Principals,</td>
<td></td>
</tr>
<tr>
<td>Guarantors, or Principals</td>
<td></td>
</tr>
</tbody>
</table>

---

**Reviewing the Credit Report**

**Requirements**

You must analyze the credit report for each individual Borrower, Key Principal, Guarantor, and Principal.
If the answer to any of the following Guidance questions is “yes”, then the Borrower, Key Principal, Guarantor, or Principal must give you satisfactory explanations, even if they meet the Minimum FICO Requirement.

**Guidance**

As you analyze the credit report, consider the following questions:

- Have any mortgage late payments occurred in the previous 36 months?
- Have any revolving or installment late payments occurred within the previous 12 months?
- Did you consider any of the credit card or other unsecured debt balances?
- Have any tax liens been filed or reported within the previous 5 years?
- Have any discharged bankruptcies or mortgage foreclosures occurred within the previous 10 years?
- Are there any outstanding judgments or collections higher than $5,000?
Chapter 10  Healthy Housing Rewards

Section 1001  Healthy Housing Rewards

Requirements

Healthy Housing Rewards™ provides incentives for Borrowers who incorporate healthy design features or provide enhanced resident services that improve the health and stability of residents of the Property.

You must not combine the Healthy Design product with the Enhanced Resident Services product.

Section 1002  Healthy Design

Requirements

<table>
<thead>
<tr>
<th>Product Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligibility</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Certification Cost</td>
</tr>
</tbody>
</table>

Guidance

You may choose to pay the Borrower's certification cost. Fannie Mae will reimburse you for the certification cost after Delivery per the How to: Register, Quote, Close, and Deliver a Healthy Housing Rewards Mortgage Loan.

Section 1003  Enhanced Resident Services

Requirements
<table>
<thead>
<tr>
<th><strong>Product Description</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
</tr>
<tr>
<td><strong>Eligibility</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
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<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Certification Cost</strong></td>
</tr>
<tr>
<td><strong>Underwriting</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
Guidance

You may choose to pay the Property's initial ERS certification cost on behalf of the Borrower. Fannie Mae will reimburse you for the Property's initial ERS certification cost after Delivery per the How to: Register, Quote, Close, and Deliver a Healthy Housing Rewards Mortgage Loan.

Stewards of Affordable Housing for the Future (SAHF) refers to the service provider certification as a CORES certification and the property-level certification as an Enhanced Resident Services Property certification.

To meet project timelines, you may permit the Borrower to obtain the

- service provider certification before identifying the property, and
- Property-level certification in conjunction with underwriting the Mortgage Loan.

Both existing and proposed new services may be included to meet certification requirements. If the Property offers sufficient existing services to receive the required certifications, the Borrower does not need to provide additional services.

Operating Procedures

You calculate the Healthy Housing Rewards Enhanced Resident Services price reduction by multiplying the Mortgage Loan amount by the ERS price incentive granted by Fannie Mae.
Chapter 11  Adjustable Rate Mortgage (ARM) Loans

Section 1101  Description

✅ Requirements

An ARM Loan has

- an interest rate that is adjusted periodically based on a specified
  - Index, and
  - interest period,

- payments that are adjusted to repay the UPB in substantially equal
  payments over the remaining amortization period, and

- a term of 5, 7, or 10 years, depending on the plan.

<table>
<thead>
<tr>
<th>Product Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Plan Number</strong></td>
</tr>
<tr>
<td>• 04931 - ARM 5/5 Loan: 30-Day Average SOFR</td>
</tr>
<tr>
<td>• 04933 - ARM 7/6 Loan: 30-Day Average SOFR</td>
</tr>
<tr>
<td><strong>Terms</strong></td>
</tr>
<tr>
<td>• ARM 5/5 Loan: Initial 5-year term with an optional second 5-year adjustable rate term</td>
</tr>
<tr>
<td>• ARM 7/6 Loan: 7-year term</td>
</tr>
<tr>
<td><strong>Index</strong></td>
</tr>
<tr>
<td>• ARM 5/5 Loan: 30-Day Average SOFR</td>
</tr>
<tr>
<td>• ARM 7/6 Loan: 30-Day Average SOFR</td>
</tr>
<tr>
<td><strong>Interest Rate Floor</strong></td>
</tr>
<tr>
<td>Must not be less than the combined</td>
</tr>
<tr>
<td>• Guaranty Fee, plus</td>
</tr>
<tr>
<td>• Servicing Fee, plus</td>
</tr>
<tr>
<td>• Investor spread.</td>
</tr>
<tr>
<td><strong>Lockout Period</strong></td>
</tr>
<tr>
<td>• 1st Loan Year; and</td>
</tr>
<tr>
<td>• 1st Loan Year of the second 5-year adjustable rate term (typically the 6th Loan Year), when an ARM 5/5 Loan renews for an additional 5-year adjustable rate term.</td>
</tr>
</tbody>
</table>
## Product Description

<table>
<thead>
<tr>
<th><strong>Prepayment Availability</strong></th>
<th>May be voluntarily prepaid after each lockout period with a 1% Prepayment Premium, but no Prepayment Premium is due</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• during the &quot;open period&quot; (typically the last 3 months of the loan term),</td>
</tr>
<tr>
<td></td>
<td>• when an ARM Loan converts to a fixed rate Mortgage Loan, or</td>
</tr>
<tr>
<td></td>
<td>• when an ARM 5/5 Loan renews for an additional 5-year adjustable rate term.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Rate Change Date</strong></th>
<th>Date the interest rate changes based on changes in the selected Index.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest Rate Change</strong></td>
<td>Monthly</td>
</tr>
<tr>
<td><strong>Frequency</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Maximum Interest Rate</strong></td>
<td>Plus or minus 1% of the then-current interest rate.</td>
</tr>
<tr>
<td><strong>Change</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Maximum Lifetime Interest</strong></td>
<td>• For an ARM 5/5 Loan,</td>
</tr>
<tr>
<td><strong>Rate Limit</strong></td>
<td>• Guaranty Fee, plus</td>
</tr>
<tr>
<td></td>
<td>• Servicing Fee, plus</td>
</tr>
<tr>
<td></td>
<td>• 5%.</td>
</tr>
<tr>
<td></td>
<td>• For an ARM 7/6 Loan,</td>
</tr>
<tr>
<td></td>
<td>• Guaranty Fee, plus</td>
</tr>
<tr>
<td></td>
<td>• Servicing Fee, plus</td>
</tr>
<tr>
<td></td>
<td>• 6%.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Index Look-Back Period</strong></th>
<th>1 Business Day before the Rate Change Date.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest Accrual Method</strong></td>
<td>Actual/360</td>
</tr>
<tr>
<td><strong>Interest Rate Cap</strong></td>
<td>Not required; interest rate adjustments are subject to an embedded cap.</td>
</tr>
<tr>
<td>Product Description</td>
<td></td>
</tr>
<tr>
<td>---------------------</td>
<td></td>
</tr>
<tr>
<td>Conversion to Fixed Rate</td>
<td>Permitted, with no prepayment penalty and minimal re-underwriting, after the lockout period and before the &quot;open period&quot; (typically the last day of the 4th month preceding the end of the Mortgage Loan term).</td>
</tr>
</tbody>
</table>
| Investors | • For an ARM 5/5 Loan, - the Multifamily Trading Desk, or - Third Party MBS Investor.  
• For an ARM 7/6 Loan, the Multifamily Trading Desk. |
| Rate Lock | • Maximum 45-day Commitment.  
• No rate change may occur before Delivery. |
| ARM 5/5 Loan Options at Maturity | Before the end of the initial 5-year term for an ARM 5/5 Loan, Borrower must elect to:  
• convert the ARM Loan to a fixed rate;  
• fully repay the ARM Loan; or  
• renew the adjustable rate term for an additional 5-year term. |

**Section 1102**

**Underwriting**

**Requirements**

You must ensure that the maximum ARM Loan amount is the lowest of the amount:

- calculated applying the applicable minimum DSCR per Form 4660 for both the  
  - maximum lifetime interest rate limit, and  
  - Fixed Rate Test per Form 4660;

- calculated using the applicable maximum LTV per Form 4660; and

- you determined is appropriate.

You must use the Fixed Rate Test interest rate to determine the UPB for the
refinance risk analysis per Part II, Chapter 2: Valuation and Income, Section 203: Refinance Risk Analysis.

For an ARM 5/5 Loan, you must:

- instruct the PCA Consultant to determine all required Property capital improvements over a 12-year period (i.e., the initial 5-year adjustable rate term, plus the optional 5-year adjustable rate term, plus 2 years); and
- calculate the Replacement Reserve based on the required capital improvements during the first 5-year adjustable rate term, plus 2 years.

**Section 1103 Prepayment Terms**

<table>
<thead>
<tr>
<th>1103.01 Generally</th>
</tr>
</thead>
</table>

**Requirements**

The following table describes various situations and the applicable prepayment provisions; see Part V, Chapter 2: Reporting and Remitting, Section 213: Prepayment Premium Sharing for Prepayment Premium calculations and sharing between you and Fannie Mae.

<table>
<thead>
<tr>
<th>Situation</th>
<th>Prepayment Provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower attempts to make a voluntary prepayment during the lockout period.</td>
<td>Borrower may not make a voluntary prepayment during the lockout period.</td>
</tr>
<tr>
<td>ARM Loan is accelerated during the prepayment lockout period.</td>
<td>Borrower owes a 5% Prepayment Premium.</td>
</tr>
<tr>
<td>Borrower makes a voluntary prepayment after the lockout period and before the &quot;open period&quot; (typically 3 months prior to the Maturity Date) for any reason other than a casualty or condemnation.</td>
<td>Borrower owes a Prepayment Premium.</td>
</tr>
<tr>
<td>ARM Loan converts to a fixed rate Mortgage Loan.</td>
<td>Borrower does not owe a Prepayment Premium.</td>
</tr>
<tr>
<td>Borrower makes any prepayment during the &quot;open period&quot; (typically 3 months before the Maturity Date).</td>
<td>Borrower does not owe a Prepayment Premium.</td>
</tr>
<tr>
<td>Borrower makes a prepayment at any time due to casualty or condemnation.</td>
<td>Borrower does not owe a Prepayment Premium.</td>
</tr>
</tbody>
</table>
Requirements

After the 1st Loan Year, the Prepayment Premium will be 1% for any reason other than a casualty or condemnation.

<table>
<thead>
<tr>
<th>Loan Year</th>
<th>5-Year Term</th>
<th>7-Year Term</th>
<th>10-Year Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Locked Out)¹</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>3</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>4</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>5</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>6²</td>
<td>N/A</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>7</td>
<td>N/A</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>8</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
<tr>
<td>9</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
<tr>
<td>10</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
</tbody>
</table>

1During the lockout period, the Borrower may not voluntarily prepay the ARM Loan. If the ARM Loan is accelerated during the lockout period, the Borrower owes a 5% Prepayment Premium.

2If an ARM 5/5 Loan is renewed for the optional 5-year adjustable rate term, the Borrower may not voluntarily prepay during the lockout period at the beginning of the second 5-year adjustable rate term (typically the 6th Loan Year). If the ARM 5/5 Loan is accelerated during the 6th Loan Year, the Borrower owes a 5% Prepayment Premium.

Section 1104

ARM 5/5 Loan Optional 5-Year Adjustable Rate Term Renewal Eligibility

Requirements

A performing ARM 5/5 Loan is eligible to renew the adjustable rate term for an additional 5-year adjustable rate term if:

- Fannie Mae offers the ARM 5/5 Loan.
- The Loan Documents require a second lockout period at the beginning of
the second 5-year adjustable rate term (typically the 6th Loan Year), prohibiting any voluntary prepayment.

- You comply with the Loan Documents, including calculating an updated:
  - DSCR, using the current NCF and the Maximum Lifetime Interest Rate Limit, at least equal to the DSCR per Form 4660 based on the same Tier as the initial 5-year adjustable rate term; and
  - LTV less than or equal to the LTV per Form 4660 based on the same Tier as the initial 5-year adjustable rate term.
## Section 1201 Description

A SARM Loan is an ARM Loan with an external Interest Rate Cap.

### Product Description

<table>
<thead>
<tr>
<th>Plan Numbers</th>
<th>04932 - 30-Day Average SOFR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term</td>
<td>5 to 10 years</td>
</tr>
<tr>
<td>Funding Type</td>
<td>MBS or Cash</td>
</tr>
<tr>
<td>Index</td>
<td>30-Day Average SOFR</td>
</tr>
<tr>
<td>Rate Change Date</td>
<td>Date the interest rate changes based on changes in the selected Index.</td>
</tr>
<tr>
<td>Index Look-Back Period</td>
<td>1 Business Day before the Rate Change Date.</td>
</tr>
<tr>
<td>Interest Rate Floor</td>
<td>Must not be less than the combined</td>
</tr>
<tr>
<td></td>
<td>• Guaranty Fee, plus</td>
</tr>
<tr>
<td></td>
<td>• Servicing Fee, plus</td>
</tr>
<tr>
<td></td>
<td>• Investor spread.</td>
</tr>
<tr>
<td>Lockout Period</td>
<td>1 st Loan Year</td>
</tr>
<tr>
<td>Prepayment Availability</td>
<td>After the lockout period, may be voluntarily prepaid per the selected prepayment option.</td>
</tr>
<tr>
<td>Minimum Loan Amount</td>
<td>$25 million</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>Equals the</td>
</tr>
<tr>
<td></td>
<td>• Index, plus</td>
</tr>
<tr>
<td></td>
<td>• Guaranty Fee, plus</td>
</tr>
<tr>
<td></td>
<td>• Servicing Fee, plus</td>
</tr>
<tr>
<td></td>
<td>• Investor spread.</td>
</tr>
</tbody>
</table>
### Product Description

| Interest Rate Adjustment | • Occurs every month.  
  • Except for the Interest Rate Floor, has no limit on number or size of rate changes. |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate Cap</td>
<td>Required for the entire term of the SARM Loan.</td>
</tr>
<tr>
<td>Interest Accrual Method</td>
<td>Actual/360</td>
</tr>
<tr>
<td>Amortization</td>
<td>Amortizes with fixed monthly principal installments based on a calculated actual/360 fixed rate payment.</td>
</tr>
<tr>
<td>Conversion to Fixed Rate</td>
<td>Permitted, with no prepayment penalty and minimal re-underwriting, after the lockout period and before the &quot;open period&quot; (typically the last day of the 4th month preceding the end of the Mortgage Loan term).</td>
</tr>
</tbody>
</table>
| Investors                | • Third Party MBS Investor, or  
  • Multifamily Trading Desk.                                                                                                     |
| Rate Lock                | • Maximum 45-day Commitment.  
  • No rate change may occur before Delivery.                                                                                      |

### Section 1202 Underwriting

#### Requirements

You must calculate the minimum underwritten DSCR based on an amortizing debt service constant.
## Minimum Underwritten DSCR

<table>
<thead>
<tr>
<th>Variable Underwriting Rate</th>
<th>Equals:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• the 30-Day Average SOFR Index at the time of Rate Lock; plus</td>
</tr>
<tr>
<td></td>
<td>• the Mortgage Loan margin equal to</td>
</tr>
<tr>
<td></td>
<td>- the Investors required spread over the applicable Index, plus</td>
</tr>
<tr>
<td></td>
<td>- the Guaranty Fee, plus</td>
</tr>
<tr>
<td></td>
<td>- the Servicing Fee; plus</td>
</tr>
<tr>
<td></td>
<td>• a 3% interest rate spread; plus</td>
</tr>
<tr>
<td></td>
<td>• a cap cost factor (see Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.03: Including the Cap Cost Factor in the Variable Underwriting Rate of this Chapter for the cap cost factor calculation) if the Borrower does not purchase an Interest Rate Cap for the full term of the SARM Loan at loan origination.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Debt Service Constant</th>
<th>Equals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• the Variable Underwriting Rate, plus</td>
</tr>
<tr>
<td></td>
<td>• the applicable amortization factor based on the Variable Underwriting Rate.</td>
</tr>
</tbody>
</table>

You must ensure that the maximum SARM Loan amount is the lowest of the amount:

- calculated applying the applicable minimum DSCR per Form 4660 for both the
  - Variable Underwriting Rate for the adjustable interest rate, and
  - Fixed Rate Test described in the Form 4660;
- calculated using the applicable maximum LTV Ratio per Form 4660;
- calculated using the minimum Cap Strike Rate, if set by Fannie Mae; and
- you determined is appropriate.

You must use the Fixed Rate Test interest rate to determine the UPB for the refinance risk analysis per Part II, Chapter 2: Valuation and Income, Section 203: Refinance Risk Analysis.
Guidance

The amortization used to underwrite the SARM Loan is different than the actual SARM Loan amortization schedule, which uses fixed monthly principal installments.

Section 1203  Actual Amortization Calculation

Requirements

You must amortize SARM Loans on a straight line basis over the total loan term. The amount of amortization due during the Mortgage Loan term is the same amount that would be due, in total, for a comparable fixed rate loan. When you calculate the amortization due, you must consider

- the loan term,
- amortization schedule,
- any interest only period, and
- the Pricing and Underwriting Tier.

To calculate SARM Loan amortization, you must use fixed rate pricing with an interest rate equal to:

- an indicative MBS investor yield; plus
- the lower of:
  - the lowest Guaranty Fee and Servicing Fee in the Pricing Memo for a hypothetical actual/360 fixed rate Mortgage Loan with the same loan term and Pricing and Underwriting Tier as the SARM Loan; or
  - the Guaranty Fee and Servicing Fee quoted by the Deal Team for a fixed rate Mortgage Loan when you request pricing for the SARM Loan.

Operating Procedures

1. You must obtain quotes for a hypothetical actual/360 fixed rate Mortgage Loan.

For example, for a SARM Loan with a 10-year loan term...

<table>
<thead>
<tr>
<th>Guaranty Fee quoted by Fannie Mae</th>
<th>0.95%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Servicing Fee quoted by Fannie Mae</td>
<td>+ 0.55%</td>
</tr>
<tr>
<td>For example, for a SARM Loan with a 10-year loan term...</td>
<td></td>
</tr>
<tr>
<td>------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>US Treasury and Investor spread (quoted by Fannie Mae or Third Party MBS Investor)</td>
<td>+ 4.00%</td>
</tr>
<tr>
<td>Gross Note Rate</td>
<td>= 5.50%</td>
</tr>
</tbody>
</table>

You must use the same 5.50% annual interest rate to calculate the amortization for the 10-year SARM Loan.

2. You must calculate the fixed monthly principal installment required over the term of the SARM Loan following these steps:

**Step 1:** Using an actual/360 interest accrual method, calculate the aggregate amortization amount that would be collected over the term of the SARM Loan based on the:

- principal amount of the SARM Loan;
- lowest applicable interest rate for a hypothetical actual/360 fixed rate Mortgage Loan with the same loan term, and Pricing and Underwriting Tier as the SARM Loan, rounded to 3 decimal places; and
- required amortization period.

**Step 2:** Divide the aggregate amortization amount determined in Step 1 by the number of amortizing monthly installments in the SARM Loan term. For example, the number of monthly installments would be:

- 60, for a 5-year amortizing Mortgage Loan;
- 84, for a 7-year amortizing Mortgage Loan;
- 120, for a 10-year amortizing Mortgage Loan; or
- 108, for a 10-year Mortgage Loan with 1 year of interest-only.

The result is the fixed monthly principal installment.

**Example:** Assume a 10-year Tier 2 fixed rate Mortgage Loan with a

- 5.500% per annum Gross Note Rate,
- 360-month amortization period, and
- $25 million loan amount.

Calculate the fixed monthly principal installment as follows:

**Step 1:** Calculate the aggregate principal amortization amount that would be collected over the term of the Mortgage Loan if it had a fixed rate.
Estimate the month and year in which the first full monthly loan payment would be made, based on an actual/360 amortization schedule. The total amount of amortization depends on both

- the number of days (i.e., 28, 29, 30, or 31) in the month prior to each loan payment date, and
- when the next leap year occurs.

Assuming

- a SARM Loan amount of $25 million,
- a 30-year amortization term,
- a debt service constant calculated using the Gross Note Rate of 5.500% (6.8134680% debt service constant),
- an actual/360 interest accrual method,
- an issue date of December 1, 2018, and
- a first loan payment date of January 1, 2019,

the aggregate amount allocated to principal over 120 payments is $4,114,494.17.

**Step 2:** Calculate the fixed monthly principal installment by dividing the aggregate amortization amount by the total number of amortizing payments during the SARM Loan term.

<table>
<thead>
<tr>
<th>Calculate the fixed monthly principal installment...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate amortization</td>
</tr>
<tr>
<td>Divided by total payments</td>
</tr>
<tr>
<td>Equals fixed monthly principal</td>
</tr>
</tbody>
</table>

### Section 1204 Prepayment Terms

**1204.01 Generally**

[✓] **Requirements**

The following table describes various situations and the applicable prepayment provisions; see **Part V, Chapter 2: Reporting and Remitting, Section 213: Prepayment Premium Sharing** for Prepayment Premium calculations and sharing between you and Fannie Mae.
### Situation | Prepayment Provisions
--- | ---
Borrower attempts to make a voluntary prepayment during the lockout period. | Borrower may not make a voluntary prepayment during the lockout period.
SARM Loan is accelerated during the prepayment lockout period. | Borrower owes a 5% Prepayment Premium.
Borrower makes a prepayment sometime after the lockout period and before the "open period" (typically 3 months before Maturity Date) for any reason other than a casualty or condemnation. | Borrower owes a Prepayment Premium.
SARM Loan converts to a fixed rate Mortgage Loan. | Borrower does not owe a Prepayment Premium.
Borrower makes a prepayment during the "open period" (typically 3 months before the Maturity Date). | Borrower does not owe a Prepayment Premium.
Borrower makes a prepayment due to casualty or condemnation. | Borrower does not owe a Prepayment Premium.

#### 1204.02 Prepayment Option 1 – Declining Prepayment Premium Schedule

**Requirements**

For a voluntary prepayment after the stated lockout period using Prepayment Option 1, you must use Schedule 4 of the Multifamily Loan and Security Agreement - Prepayment Premium Schedule (Graduated Prepayment Premium – ARM, SARM) (Form 6104.10) with the applicable Prepayment Premium percentage listed in this table.

<table>
<thead>
<tr>
<th>Loan Year</th>
<th>5-Year Term</th>
<th>7-Year Term</th>
<th>10-Year Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Locked Out)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>3</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>4</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>5</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Loan Year</td>
<td>5-Year Term</td>
<td>7-Year Term</td>
<td>10-Year Term</td>
</tr>
<tr>
<td>-----------</td>
<td>-------------</td>
<td>-------------</td>
<td>--------------</td>
</tr>
<tr>
<td>6</td>
<td>N/A</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>7</td>
<td>N/A</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>8</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
<tr>
<td>9</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
<tr>
<td>10</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
</tbody>
</table>

1 During the lockout period, the Borrower may not voluntarily prepay the SARM Loan. If the SARM Loan is accelerated during the lockout period, the Borrower owes a 5% Prepayment Premium.

### 1204.03 Prepayment Option 2 - 1% Prepayment Premium Schedule

**Requirements**

For a voluntary prepayment after the stated lockout period using Prepayment Option 2, you must use Schedule 4 to Multifamily Loan and Security Agreement (Prepayment Premium Schedule-1% Prepayment Premium – ARM, SARM)(Form 6104.11) to document the required 1% Prepayment Premium.

<table>
<thead>
<tr>
<th>Loan Year</th>
<th>5-Year Term</th>
<th>7-Year Term</th>
<th>10-Year Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Locked Out)†</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>3</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>4</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>5</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>6</td>
<td>N/A</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>7</td>
<td>N/A</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>8</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
<tr>
<td>9</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
<tr>
<td>10</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
</tbody>
</table>

† During the lockout period, the Borrower may not voluntarily prepay the SARM Loan. If the SARM Loan is accelerated during the lockout period, the Borrower owes a 5% Prepayment Premium.
## Section 1205

### Interest Rate Caps

<table>
<thead>
<tr>
<th>Requirements</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest Rate Cap</strong></td>
<td>Borrower must purchase a third-party Interest Rate Cap.</td>
</tr>
<tr>
<td><strong>Interest Rate Cap Provider</strong></td>
<td>Borrower must only obtain bids from providers approved by Fannie Mae as listed on <a href="https://multifamily.fanniemae.com">https://multifamily.fanniemae.com</a>.</td>
</tr>
<tr>
<td><strong>Interest Rate Cap Documentation</strong></td>
<td>Must be on forms that are acceptable to Fannie Mae.</td>
</tr>
</tbody>
</table>
| **Minimum Interest Rate Cap Term** | 5 years. The Borrower must keep an Interest Rate Cap Agreement in place continually until the earlier of the  
  • effective date of any permitted conversion to a fixed rate Mortgage Loan, or  
  • Maturity Date of the SARM Loan. |
| **Replacement Cap** | You must ensure that the Borrower purchases a replacement cap if the Interest Rate Cap term expires before the conversion or Maturity Date of the SARM Loan. |
| **Cap Cost Factor** | Equals the cost of a replacement cap divided by the initial cap term. |
| **Interest Rate Cap Reserves** | Borrower must fund a cash reserve sufficient to purchase a replacement cap if the Interest Rate Cap term expires before the Maturity Date of the SARM Loan. |
| **Cap Contract Process and Documentation** | You must deliver all cap-related documentation to Fannie Mae, including the  
  • Interest Rate Cap Agreement, and  
  • Interest Rate Cap Reserve and Security Agreement (Form 6442).  
  Fannie Mae will engage outside counsel at your expense to review all cap-related documentation. |
<table>
<thead>
<tr>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Interest Rate Cap Notional Amount</td>
</tr>
</tbody>
</table>

**Guidance**

You may require the Borrower to:

- pay Fannie Mae’s costs, including legal fees; and
- fund a reserve for the payment of these expenses.

## 1205.01 Replacement Interest Rate Cap

### Requirements

If the initial Interest Rate Cap expires before the Maturity Date of the SARM Loan, you must ensure that:

- The Borrower purchases a replacement Interest Rate Cap to cover the remaining term.
- The notional amount of any replacement cap equals the outstanding principal balance of the SARM Loan when the replacement cap becomes effective, and continues throughout the term of the replacement cap.
- The term of the replacement cap equals the remaining term of the SARM Loan, or a shorter term if previously approved and documented in the Loan Documents.
- The Cap Strike Rate of the replacement cap is equal to or less than the Cap Strike Rate at Mortgage Loan origination (see Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.02: Determining the Cap Strike Rate).

### Guidance

The Borrower may purchase an Interest Rate Cap in advance if

- the initial cap goes into effect on the Mortgage Loan Origination Date, and
- the replacement cap goes into effect on the Maturity Date of the initial cap.

## 1205.02 Determining the Cap Strike Rate
Requirements

You must determine the maximum Cap Strike Rate. The sum of the following must not be greater than the rate (calculated using an underwritten debt service constant that includes amortization) that produces the minimum required Underwritten DSCR for the Pricing and Underwriting Tier of the SARM Loan:

- Cap Strike Rate; plus
- Guaranty Fee; plus
- Servicing Fee; plus
- Investor spread; plus
- the higher of a cap cost factor (see Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.03: Including the Cap Cost Factor in the Variable Underwriting Rate) or actual Interest Rate Cap escrow deposits, if an interest rate cap for the full term of the Mortgage Loan is not purchased at closing.

You must ensure that the Cap Strike Rate at which the Borrower purchases any replacement cap is not greater than the Cap Strike Rate at which the initial cap was purchased.

Guidance

If the Borrower purchases an Interest Rate Cap with a Cap Strike Rate less than the maximum rate, then any replacement cap may still be purchased at a Cap Strike Rate that is less than or equal to the maximum rate.

You may calculate the initial Cap Strike Rate based on an interest-only underwritten debt service constant if the approved interest-only term is greater than or equal to the initial Interest Rate Cap term.

1205.03 Including the Cap Cost Factor in the Variable Underwriting Rate

Requirements

When determining the Variable Underwriting Rate used to calculate the minimum required Underwritten DSCR, you must include a cap cost factor based on the term of the SARM Loan and the term of the initial Interest Rate Cap.

You do not need to include a cap cost factor if the term of the initial Interest Rate Cap equals the term of the SARM Loan.

You must ensure that the cap cost factor equals

- the estimated cost of the replacement cap (when the term of the initial
cap expires), divided by

- the term of the initial cap.

**Operating Procedures**

For example, to calculate the cap cost factor assuming a 5-year Interest Rate Cap and 7-year SARM Loan term:

- You must include an annual cap cost factor in the Variable Underwriting Rate.
- If the SARM Loan term is 7 years and an initial cap is purchased for a 5-year term, the cap cost factor equals the estimated cost of a replacement cap divided by 5 (the number of years of the initial interest rate term).
- The replacement cap has a 2-year term and a Cap Strike Rate equal to that of the initial cap.
- If a 2-year Interest Rate Cap at the initial Cap Strike Rate costs 20 basis points, you must divide 20 by 5, then add the result (4 basis points) to the Variable Underwriting Rate.

### 1205.04 Establishing Interest Rate Cap Reserves

**Requirements**

You must ensure that the Borrower has a cash reserve to purchase a replacement Interest Rate Cap if the term of the initial Interest Rate Cap is less than the term of the SARM Loan.

If the initial Interest Rate Cap Agreement has a term of 5 years, the Borrower must fund the cash reserve with each monthly Mortgage Loan payment during the term.

If the initial cap has a term of more than 5 years, the Borrower’s monthly reserve payments for a replacement cap must start no later than 5 years before the existing cap expires.

You must calculate the monthly reserve payments for the first 6-month period using the estimated cost of the replacement Interest Rate Cap.

**Guidance**

Assuming that a 5-year Interest Rate Cap is initially purchased for a SARM Loan with a 10-year term, if

- the initial cap is purchased with a 6.50% Cap Strike Rate, and
- the cost of a replacement 5-year cap with a 6.50% Cap Strike Rate is
$250,000,
- then the monthly reserve for the first 6-month period would be $4,166.67 ($250,000 cost ÷ 60 months).

### Operating Procedures

1. **Cap Provider Payment**

   The Interest Rate Cap provider must make a payment directly to you if, on the 1st day of the month corresponding with the monthly loan payment date, the 30-Day Average SOFR Index exceeds the Cap Strike Rate for a monthly settlement.

   Only disburse a provider payment to the Borrower if
   - there is no Mortgage Loan default, and
   - you have received all payments due under the Note for that month.

2. **Timing**

   The Borrower must accept a bid for the initial Interest Rate Cap in writing from a Fannie Mae approved provider before you Deliver the SARM Loan.

   You must give Fannie Mae copies of all cap-related documentation when you deliver the SARM Loan.

3. **Purchase Price**

   The Borrower must pay the entire purchase price for an Interest Rate Cap to the provider when the Interest Rate Cap Agreement is issued.

4. **Pledge to Fannie Mae**

   The Borrower must execute Form 6442 to pledge its interest in the Interest Rate Cap and any reserve to Fannie Mae, as additional collateral for the SARM Loan.
## Chapter 13  Hybrid Adjustable Rate Mortgage (Hybrid ARM) Loans

### Section 1301  Description

#### Requirements

A Hybrid ARM Loan combines the features of fixed rate and ARM Loans, and has a total term of 30 years, consisting of:

- an initial term when interest accrues at a fixed rate, followed by
- the remaining term, during which interest accrues at an adjustable rate.

<table>
<thead>
<tr>
<th>Product Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Plan Number</strong></td>
</tr>
</tbody>
</table>
| **Terms**           | Permitted combinations of fixed rate and adjustable rate terms:  
|                     | • 5-year fixed rate term, followed by automatic conversion to a 25-year adjustable rate term;  
|                     | • 7-year fixed rate term, followed by automatic conversion to a 23-year adjustable rate term; or  
|                     | • 10-year fixed rate term, followed by automatic conversion to a 20-year adjustable rate term. |
| **Maximum Loan Amount** | Per Part III, Chapter 9: Small Mortgage Loans, Section 901.01: Description. |
| **Ineligible Products** | • Cooperative Property  
|                     | • Military Housing Property  
|                     | • MAH Property  
|                     | • Near Stabilized Property  
|                     | • Seniors Housing Property  
|                     | • Student Housing Property  
|                     | • Dedicated Student Housing Property  
<p>|                     | • Supplemental Mortgage Loan |</p>
<table>
<thead>
<tr>
<th>Product Description</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prepayment Premium Options</strong></td>
<td>Either</td>
</tr>
<tr>
<td>• standard yield maintenance, or</td>
<td></td>
</tr>
<tr>
<td>• graduated Prepayment Premium</td>
<td></td>
</tr>
<tr>
<td><strong>Prepayment Premium Period End Date / Yield Maintenance Period End Date</strong></td>
<td>Final day of the last Loan Year during the fixed rate term per the applicable Prepayment Premium option.</td>
</tr>
<tr>
<td><strong>Conversion to Adjustable Rate</strong></td>
<td>Automatic conversion from a fixed rate to an adjustable rate on the 1st day of the 1st Loan Year following the applicable fixed rate term.</td>
</tr>
<tr>
<td><strong>Index During Adjustable Rate Term</strong></td>
<td>30-Day Average SOFR</td>
</tr>
<tr>
<td><strong>Interest Rate Floor</strong></td>
<td>Must not be less than the combined</td>
</tr>
<tr>
<td>• Guaranty Fee, plus</td>
<td></td>
</tr>
<tr>
<td>• Servicing Fee, plus</td>
<td></td>
</tr>
<tr>
<td>• Investor spread (per Form 4660).</td>
<td></td>
</tr>
<tr>
<td><strong>Gross Note Rate During Adjustable Rate Term</strong></td>
<td>Equals the</td>
</tr>
<tr>
<td>• Index, plus</td>
<td></td>
</tr>
<tr>
<td>• Guaranty Fee, plus</td>
<td></td>
</tr>
<tr>
<td>• Servicing Fee, plus</td>
<td></td>
</tr>
<tr>
<td>• Investor spread (per Form 4660).</td>
<td></td>
</tr>
<tr>
<td><strong>Rate Change Date</strong></td>
<td>Date the interest rate changes based on changes in the selected Index.</td>
</tr>
<tr>
<td><strong>Interest Rate Change Frequency During Adjustable Rate Term</strong></td>
<td>Every 6 months, based on the Index in effect as of the Rate Change Date.</td>
</tr>
<tr>
<td><strong>Frequency of Payment Change During Adjustable Rate Term</strong></td>
<td>P&amp;I payments are recalculated for every Rate Change Date.</td>
</tr>
<tr>
<td><strong>Maximum Interest Rate Change</strong></td>
<td>Plus or minus 1% of the then-current interest rate both</td>
</tr>
<tr>
<td>• at conversion from fixed rate to adjustable rate, and</td>
<td></td>
</tr>
<tr>
<td>• during the adjustable rate term.</td>
<td></td>
</tr>
</tbody>
</table>
## Product Description

<table>
<thead>
<tr>
<th>Product Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Maximum Interest Rate During Adjustable Rate Term</strong></td>
</tr>
<tr>
<td>5% over the fixed rate.</td>
</tr>
<tr>
<td><strong>Index Look-Back Period</strong></td>
</tr>
<tr>
<td>1 Business Day before the Rate Change Date.</td>
</tr>
<tr>
<td><strong>Interest Accrual Method</strong></td>
</tr>
<tr>
<td>Must be actual/360.</td>
</tr>
<tr>
<td><strong>Payments</strong></td>
</tr>
<tr>
<td>Calculated using a 30/360 interest accrual method.</td>
</tr>
<tr>
<td><strong>Interest-Only</strong></td>
</tr>
<tr>
<td>Must not exceed the fixed rate term.</td>
</tr>
</tbody>
</table>

You must rate lock the Hybrid ARM Loan with the Multifamily Trading Desk (MBS or cash).

You must underwrite the Hybrid ARM Loan based on the applicable fixed rate terms.

### Section 1302  Interest Rate Conversion Date

**Requirements**

The conversion of the interest rate from fixed to adjustable is mandatory and automatic. After Fannie Mae confirms the Commitment for the Hybrid ARM Loan, it may not be modified.

After the Hybrid ARM Conversion Date, interest will accrue at the applicable adjustable rate, up to and including the Maturity Date.

**Operating Procedures**

As an example of the conversion to adjustable rate date calculation in **Part III, Chapter 13: Hybrid Adjustable Rate Mortgage (Hybrid ARM) Loans, Section 1301: Description:**

- If the effective date of the Loan Documents is July 1, 2019, and the fixed rate term is 7 years, then the Hybrid ARM Conversion Date would be July 1, 2026.

- If the fixed rate term is 7 years and the effective date is any other date in July 2019, then the Hybrid ARM Conversion Date would be August 1, 2026.

### Section 1303 Prepayment Terms
Requirements

You must select from 3 Prepayment Premium options.

<table>
<thead>
<tr>
<th>Loan Year</th>
<th>5-Year Term</th>
<th>7-Year Term</th>
<th>10-Year Term</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PREPAYMENT Option 1 – 5% Declining Prepayment Premium</strong> Schedule</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>2</td>
<td>4%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>3</td>
<td>3%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>4</td>
<td>2%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>5</td>
<td>1%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>6</td>
<td>N/A</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>7</td>
<td>N/A</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>8</td>
<td>N/A</td>
<td>N/A</td>
<td>2%</td>
</tr>
<tr>
<td>9</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
<tr>
<td>10</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan Year</th>
<th>5-Year Term</th>
<th>7-Year Term</th>
<th>10-Year Term</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PREPAYMENT Option 2 – 3% Declining Prepayment Premium</strong> Schedule</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>2</td>
<td>2%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>3</td>
<td>1%</td>
<td>2%</td>
<td>3%</td>
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<tr>
<td>4</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
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<tr>
<td>5</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
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<tr>
<td>6</td>
<td>N/A</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>7</td>
<td>N/A</td>
<td>1%</td>
<td>1%</td>
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<tr>
<td>8</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
<tr>
<td>9</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
<tr>
<td>10</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
</tbody>
</table>
## PREPAYMENT Option 3 – Standard Yield Maintenance

<table>
<thead>
<tr>
<th>Loan Year</th>
<th>5-Year Term</th>
<th>7-Year Term</th>
<th>10-Year Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield Maintenance Ends</td>
<td>Last day of the 5th Loan Year</td>
<td>Last day of the 7th Loan Year</td>
<td>Last day of the 10th Loan Year</td>
</tr>
</tbody>
</table>

If the Borrower makes a prepayment due to casualty or condemnation, no Prepayment Premium is due. For all other prepayments, the Borrower must pay a Prepayment Premium if the prepayment occurs before the Prepayment Premium Period End Date.

The Borrower may prepay the Hybrid ARM Loan without any Prepayment Premium:
- on the last day of the fixed rate term; or
- at any time during the adjustable rate term.

The Prepayment Premium is shared with Fannie Mae per Part V, Chapter 2: Reporting and Remitting, Section 213: Prepayment Premium Sharing using the applicable Prepayment Premium schedule for a fixed rate Mortgage Loan.

### Section 1304 Monthly Principal and Interest Payments

#### 1304.01 During the Fixed Rate Term

- **Requirements**

  The monthly installments of P&I must equal the amount needed to repay the UPB:
  - in substantially equal payments over the amortization term at the fixed rate, and
  - based on a 30/360 interest accrual method.

  To calculate loan payments at the end of an interest only period, refer to the Loan Documents.

#### 1304.02 On the Hybrid ARM Loan Conversion Date

- **Requirements**

  On the Hybrid ARM Conversion Date, the Borrower must make the last regularly scheduled payment of P&I for the fixed rate term.
During the Adjustable Rate Term

Requirements

The Borrower must make payments of P&I based on changes to the Index:

- on the 1st day of the month immediately following the Hybrid ARM Conversion Date; and
- on the 1st day of each month thereafter, until the Maturity Date.

On the Rate Change Date, a new P&I installment will be calculated to be in effect on the 1st day of the following month.

Monthly installments of P&I, due on each payment date during the adjustable rate term, must equal the amount needed to repay the UPB

- in substantially equal payments over the amortization term at the variable rate,
- based on a 30/360 interest accrual method.

Operating Procedures

To determine the amount of each monthly installment allocated to principal, subtract the amount allocated to interest following each rate change.

For example:

<table>
<thead>
<tr>
<th>A 5-year Hybrid ARM Loan with the following terms:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Amount</td>
</tr>
<tr>
<td>Fixed Rate</td>
</tr>
<tr>
<td>Fixed Rate Term</td>
</tr>
<tr>
<td>Amortization Term</td>
</tr>
<tr>
<td>Fixed Rate Period</td>
</tr>
<tr>
<td>Monthly Payment</td>
</tr>
<tr>
<td>UPB at End of Month 60</td>
</tr>
</tbody>
</table>

Upon conversion to adjustable rate in month 61, amortization is recalculated using the following terms:

| Loan Amount | $2,303,737.20 |
| Variable Rate | 4.25% |
Upon conversion to adjustable rate in month 61, amortization is recalculated using the following terms:

<table>
<thead>
<tr>
<th>Amortization Term</th>
<th>300 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Payment</td>
<td>$12,480.22</td>
</tr>
<tr>
<td>Interest Payment</td>
<td>(4.25% / 360 months) \times 30 \text{ days} \times \text{UPB}</td>
</tr>
<tr>
<td>Principal Payment</td>
<td>Monthly Payment - Interest Payment</td>
</tr>
<tr>
<td>UPB at End of Month 66</td>
<td>$2,277,579.64</td>
</tr>
</tbody>
</table>

At rate change in month 67, amortization is recalculated using the following terms:

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>$2,277,579.64</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable Rate</td>
<td>4.50%</td>
</tr>
<tr>
<td>Amortization Term</td>
<td>294 months</td>
</tr>
<tr>
<td>Monthly Payment</td>
<td>$12,799.71</td>
</tr>
<tr>
<td>Interest Payment</td>
<td>(4.50% / 360 months) \times 30 \text{ days} \times \text{UPB}</td>
</tr>
<tr>
<td>Principal Payment</td>
<td>Monthly Payment - Interest Payment</td>
</tr>
<tr>
<td>UPB at End of Month 72</td>
<td>$2,251,786.15</td>
</tr>
</tbody>
</table>
Chapter 14  Supplemental Mortgage Loans

Section 1401  Description

☑️ Requirements

A Fannie Mae Supplemental Mortgage Loan is available for Properties with a Pre-Existing Mortgage Loan.

A non-Fannie Mae Subordinate Loan is only permitted for MAH Properties per Part III, Chapter 7: Multifamily Affordable Housing Properties.

For Moderate Rehabilitation Supplemental Mortgage Loans, see Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans.

Section 1402  Supplemental Mortgage Loans

1402.01  Description

☑️ Requirements

<table>
<thead>
<tr>
<th>Product Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lender Eligibility</strong></td>
</tr>
<tr>
<td><strong>Ineligible Products</strong></td>
</tr>
<tr>
<td><strong>Loan History</strong></td>
</tr>
<tr>
<td><strong>Origination Date</strong></td>
</tr>
<tr>
<td>Product Description</td>
</tr>
<tr>
<td>------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Maximum Number of Supplemental Mortgage Loans</strong></td>
</tr>
<tr>
<td>Only 1 Supplemental Mortgage Loan is permitted during the Senior Mortgage Loan term unless:</td>
</tr>
<tr>
<td>• it is a Moderate Rehabilitation Supplemental Mortgage Loan;</td>
</tr>
<tr>
<td>• it is a Green Rewards Supplemental Mortgage Loan where 100% of the proceeds are used to implement selected Efficiency Measures; or</td>
</tr>
<tr>
<td>• 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.</td>
</tr>
<tr>
<td><strong>Minimum Supplemental Loan Term</strong></td>
</tr>
<tr>
<td>5 years provided that:</td>
</tr>
<tr>
<td>• 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</td>
</tr>
<tr>
<td>• 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.</td>
</tr>
<tr>
<td><strong>Mortgage Loan Amount</strong></td>
</tr>
<tr>
<td>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.</td>
</tr>
</tbody>
</table>
## Product Description

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Replacement Reserve, Tax, and Insurance Escrows</strong></td>
<td>You must:</td>
</tr>
<tr>
<td></td>
<td>• Calculate the Replacement Reserve, tax, and insurance escrows on the resulting Tier of the combined Pre-Existing Mortgage Loan and Supplemental Mortgage Loan.</td>
</tr>
<tr>
<td></td>
<td>• Ensure escrow funding established with the Pre-Existing Mortgage Loans does not cease.</td>
</tr>
<tr>
<td></td>
<td>• 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.</td>
</tr>
<tr>
<td><strong>Cross-Default</strong></td>
<td>Must be cross-defaulted with all Pre-Existing Mortgage Loans.</td>
</tr>
<tr>
<td><strong>Interest Rate Type</strong></td>
<td>• Fixed rate, if the Pre-Existing Mortgage Loan has a fixed rate.</td>
</tr>
<tr>
<td></td>
<td>• Fixed or variable rate, if the Pre-Existing Mortgage Loan has a variable rate.</td>
</tr>
<tr>
<td><strong>UCC Financing Statements</strong></td>
<td>No new UCC Financing Statement is required for the Supplemental Mortgage Loan.</td>
</tr>
<tr>
<td></td>
<td>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.</td>
</tr>
</tbody>
</table>

### 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.
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.

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.

<table>
<thead>
<tr>
<th>Pre-Existing Mortgage Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>If the Interest Rate Type is Fixed Rate</td>
</tr>
<tr>
<td>Adjustable Rate</td>
</tr>
</tbody>
</table>
Supplemental Mortgage Loan

If the Interest Rate Type is

| Fixed Rate | Use an amortizing Debt Service Amount based on the greater of the Gross Note Rate or the 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

- **DSCR**
  - The combined debt service of
    - all Pre-Existing Mortgage Loans, plus
    - the Supplemental Mortgage Loan.

- **LTV**
  - The combined
    - aggregate UPB 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.

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

**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.

- **خدام 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

<table>
<thead>
<tr>
<th>If the Pre-Existing Mortgage Loan is...</th>
<th>It is eligible for a Tier Dropping Supplemental Mortgage Loan if...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>the combined Pre-Existing Mortgage Loans and Supplemental Mortgage Loan meet the Form 4660</td>
</tr>
<tr>
<td></td>
<td>• minimum applicable DSCR for Tier 2 Mortgage Loans, and</td>
</tr>
<tr>
<td></td>
<td>• maximum applicable LTV for Tier 2 Mortgage Loans.</td>
</tr>
<tr>
<td>MBS</td>
<td>• it was designated as eligible for a Tier Dropping Supplemental Mortgage Loan; and</td>
</tr>
<tr>
<td></td>
<td>• the combined Pre-Existing Mortgage Loans and Supplemental Mortgage Loan meet the Form 4660</td>
</tr>
<tr>
<td></td>
<td>- minimum applicable DSCR for Tier 2 Mortgage Loans, and</td>
</tr>
<tr>
<td></td>
<td>- maximum applicable LTV for Tier 2 Mortgage Loans.</td>
</tr>
</tbody>
</table>

### 1402.04C Ineligible Mortgage Loans

#### Requirements

ARM Loans cannot be Tier Dropping Supplemental Mortgage Loans.

### 1402.05 Streamlined Underwriting

#### 1402.05A Property

#### Requirements

<table>
<thead>
<tr>
<th>Streamlined Underwriting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal</td>
</tr>
<tr>
<td>Property Management</td>
</tr>
<tr>
<td>Streamlined Underwriting</td>
</tr>
<tr>
<td>--------------------------</td>
</tr>
<tr>
<td><strong>Property Condition Assessment Report</strong></td>
</tr>
<tr>
<td>You must obtain a PCA Report if the Supplemental Mortgage Loan Property inspection reveals any adverse change in property condition or life safety issues.</td>
</tr>
<tr>
<td>A PCA Report is not required if:</td>
</tr>
<tr>
<td>• there has been no adverse change;</td>
</tr>
<tr>
<td>• the existing PCA Report is less than 3 years old;</td>
</tr>
<tr>
<td>• all immediate repairs identified in the existing PCA Report have been satisfactorily completed; and</td>
</tr>
<tr>
<td>• the most recent Property inspection indicates an overall rating of 1 or 2.</td>
</tr>
</tbody>
</table>

| **Replacement Reserves** |
| If the PCA Report indicates a need to modify the 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;
- 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

You must contact Fannie Mae per Part V, Chapter 7: Non-Performing Mortgage Loans, Section 704: Notice of Default; Reservation of Rights if there has been:

■ an unauthorized Transfer/Assumption; or

■ any change in the organizational structure of the Borrower, Guarantor, or any Key Principal or Principal.
Chapter 15  Split Mortgage Loans and Bifurcated Mortgage Loans

Section 1501  Description

A Split Mortgage Loan consists of 2 Mortgage Loans, a Senior Mortgage Loan and a Subordinate Loan, that are underwritten concurrently. A Split Mortgage Loan allows the Borrower to divide the debt or increase the leverage on a property.

A Bifurcated Mortgage Loan is a single Senior Mortgage Loan that is evidenced by 2 Notes with the same payment and collateral priority. A Bifurcated Mortgage Loan allows the Borrower to deleverage a portion of the debt.

Split Mortgage Loans and Bifurcated Mortgage Loans are sometimes referred to as A/B Structures. Split Mortgage Loans and Bifurcated Mortgage Loans are not the same as the Dual Commitment Option described in Part IV, Chapter 3: Streamlined Rate Lock, Section 307: Dual Commitment Option.

Section 1502  Characteristics

<table>
<thead>
<tr>
<th>Requirements</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Topic</th>
<th>Split Mortgage Loans</th>
<th>Bifurcated Mortgage Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing</td>
<td>Subordinate Loan closing must occur on, or within 12 months after, the Senior Mortgage Loan closing.</td>
<td>Must occur on the same date.</td>
</tr>
<tr>
<td>Loan Amount</td>
<td>Aggregate original principal amounts of the Senior Mortgage Loan and the Subordinate Loan.</td>
<td>Aggregate original principal amounts of the 2 Notes.</td>
</tr>
<tr>
<td>Purpose</td>
<td>Either acquisition or refinancing.</td>
<td>Either acquisition or refinancing.</td>
</tr>
</tbody>
</table>

If any proceeds are based on an IRP, Part III, Chapter 7: Multifamily Affordable Housing Properties applies.
<table>
<thead>
<tr>
<th>Topic</th>
<th>Split Mortgage Loans</th>
<th>Bifurcated Mortgage Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting</td>
<td>The 2 Mortgage Loans must:</td>
<td>Must not have a combined:</td>
</tr>
<tr>
<td></td>
<td>• not have a combined LTV higher than the maximum standard for a Senior Mortgage Loan;</td>
<td>• LTV higher than the maximum standard for a Senior Mortgage Loan; and</td>
</tr>
<tr>
<td></td>
<td>• not have a combined DSCR lower than the minimum standard for a Senior Mortgage Loan;</td>
<td>• DSCR lower than the minimum standard for a Senior Mortgage Loan.</td>
</tr>
<tr>
<td></td>
<td>• be cross-defaulted.</td>
<td></td>
</tr>
<tr>
<td>Interest Rate Structures</td>
<td>Either a fixed or variable interest rate.</td>
<td>Either a fixed or variable interest rate.</td>
</tr>
<tr>
<td></td>
<td>If you use a combination of fixed and variable interest rates, you must comply with</td>
<td>If you use a combination of fixed and variable interest rates, each Note must have its</td>
</tr>
<tr>
<td></td>
<td>Part III, Chapter 14: Supplemental Mortgage Loans.</td>
<td>own MBS.</td>
</tr>
<tr>
<td>Documentation</td>
<td>2 separate sets of Loan Documents: 1 for the Senior Mortgage Loan and 1 for the</td>
<td>1 set of Loan Documents,</td>
</tr>
<tr>
<td></td>
<td>Subordinate Loan.</td>
<td>but evidenced by 2 separate Notes.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Notes must be pari passu.</td>
</tr>
<tr>
<td>Securitization</td>
<td>2 separate MBS: 1 for the Senior Mortgage Loan and 1 for the Subordinate Loan.</td>
<td>1 MBS unless multiple Interest Rate Structures.</td>
</tr>
<tr>
<td></td>
<td>Additional Disclosure per Form 4098 will be required if a partial release of collateral</td>
<td>Additional Disclosure per Form 4098 must be required if a partial release of collateral</td>
</tr>
<tr>
<td></td>
<td>is permitted for either Mortgage Loan.</td>
<td>is permitted for either Note.</td>
</tr>
<tr>
<td>Hazard Insurance</td>
<td>Coverage based on the combined UPB of the Senior Mortgage Loan and the Subordinate Loan.</td>
<td>Consistent with Senior Mortgage Loans.</td>
</tr>
</tbody>
</table>
### Topic: Split Mortgage Loans

<table>
<thead>
<tr>
<th>Topic</th>
<th>Split Mortgage Loans</th>
<th>Bifurcated Mortgage Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title Insurance</td>
<td>Separate title insurance policies for the Senior Mortgage Loan and Subordinate Loan, in the respective amounts of each loan.</td>
<td>Consistent with Senior Mortgage Loans.</td>
</tr>
<tr>
<td>UCC Financing Statements</td>
<td>Filings for both the Senior Mortgage Loan and Subordinate Loan.</td>
<td>Consistent with Senior Mortgage Loans.</td>
</tr>
</tbody>
</table>

### Guidance

<table>
<thead>
<tr>
<th>Topic</th>
<th>Split Mortgage Loans</th>
<th>Bifurcated Mortgage Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maturity Date</td>
<td>2 Mortgage Loans may have different Maturity Dates if the Subordinate Loan is resubordinated per Part III, Chapter 14: Supplemental Mortgage Loans.</td>
<td>2 Notes may have different Maturity Dates and Yield Maintenance Period End Dates.</td>
</tr>
</tbody>
</table>
Chapter 16  Mezzanine Financing and Preferred Equity

Section 1601  Mezzanine Financing

### 1601.01  Description

- **Requirements**

  A Mortgage Loan with Mezzanine Financing is permitted only if
  - the Mezzanine Financing is originated by an approved DUS Lender Affiliate (DLA Mezzanine Financing), or
  - Fannie Mae approves the Mezzanine Financing from another source (non-DLA Mezzanine Financing) on a case-by-case basis.

  Before underwriting non-DLA Mezzanine Financing, you must contact the Deal Team.

### 1601.01A  Eligible Mortgage Loans

- **Requirements**

  Mortgage Loans with Mezzanine Financing must:
  - be newly originated;
  - have an original principal balance of at least
    - $10 million, for DLA Mezzanine Financing, or
    - $50 million, for non-DLA Mezzanine Financing;
  - be fixed rate; and
  - be flagged for MBS additional disclosure per Form 4098.

### 1601.01B  Eligible Terms

- **Requirements**

  Mezzanine Financing must:
  - have a fixed rate or fixed mezzanine rate of return without escalations;
  - not have a maturity date, redemption date, trigger date, or require repayment of the Mezzanine Financing during the term of the Mortgage Loan; and
  - have a minimum $1 million origination balance.
1601.01C Loss Sharing

- Requirements

Loss sharing is required on all Mortgage Loans with Mezzanine Financing.

1601.01D Lender's Loan Application

- Requirements

Your loan application form must:

- require the Borrower to indicate whether it has or intends to obtain Mezzanine Financing as part of its organizational or capital structure; and
- inform the Borrower that you may delay approval or revoke any prior approval if the Borrower changes its intention to obtain Mezzanine Financing.

1601.02 Underwriting

- Requirements

You must comply with the following table.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Requirements</th>
</tr>
</thead>
</table>
| Income Projections     | • Provide support for the income projections used to determine the aggregate amount of the Mortgage Loan and Mezzanine Financing.  
<pre><code>                     | • Demonstrate that the local economics are sufficient and sustainable to support both loans. |
</code></pre>
<p>| Underwritten NCF       | Use the same Underwritten NCF to determine the loan amount for               |
|                        | • the Mortgage Loan, and                                                   |
|                        | • the Mezzanine Financing.                                                 |</p>
<table>
<thead>
<tr>
<th>Topic</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refinance Analysis</td>
<td>Prepare a refinance analysis that:</td>
</tr>
<tr>
<td></td>
<td>• incorporates the terms of both the Mortgage Loan and the Mezzanine Financing;</td>
</tr>
<tr>
<td></td>
<td>• demonstrates that the Borrower will - maintain a positive equity position in the Property throughout the term of the Mortgage Loan, or</td>
</tr>
<tr>
<td></td>
<td>- have some other incentive (e.g., continuing cash flow) to remain committed to the Property and its successful operation; and</td>
</tr>
<tr>
<td></td>
<td>• concludes that there will be sufficient cash flow, NCF growth, and residual value to pay off the Mortgage Loan and the Mezzanine Financing at maturity (as fully extended, if applicable).</td>
</tr>
<tr>
<td>Experience</td>
<td>Ensure that the Sponsor and each Key Principal have sufficient net worth, liquidity, and experience with the Property type and market to justify the origination of the Mortgage Loan and the Mezzanine Financing.</td>
</tr>
<tr>
<td></td>
<td>If upgrades or rehabilitation are being financed by the Mezzanine Financing, then ensure that the Borrower, each Key Principal, and the mezzanine borrower also have</td>
</tr>
<tr>
<td></td>
<td>• sufficient experience managing the scope of the proposed rehabilitation, and</td>
</tr>
<tr>
<td></td>
<td>• strong property management experience in the local market.</td>
</tr>
<tr>
<td>Mezzanine Borrower Structure</td>
<td>Ensure the mezzanine borrower is</td>
</tr>
<tr>
<td></td>
<td>• a newly-formed, special purpose, bankruptcy-remote limited liability company or limited partnership,</td>
</tr>
<tr>
<td></td>
<td>• the sole owner of the Borrower, and</td>
</tr>
<tr>
<td></td>
<td>• wholly-owned by the Principals of the Borrower.</td>
</tr>
<tr>
<td>Topic</td>
<td>Requirements</td>
</tr>
<tr>
<td>-----------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Appraisal</td>
<td>If the Mezzanine Financing is funding rehabilitation, ensure the Appraisal states the Property’s as-is and as-completed values.</td>
</tr>
<tr>
<td>Third-Party Reports</td>
<td>For Mortgage Loans with DLA Mezzanine Financing, include in the underwriting submission, on behalf of your DL Mezzanine Affiliate:</td>
</tr>
<tr>
<td></td>
<td>• internal or third-party inspection reports;</td>
</tr>
<tr>
<td></td>
<td>• PCAs; and</td>
</tr>
<tr>
<td></td>
<td>• architects or engineers reports (or other similar reports) related to the Mezzanine Financing.</td>
</tr>
</tbody>
</table>

**Guidance**

You may require a Completion Guaranty (Form 6018).

The DUS Lender Mezzanine Affiliate may also require a completion guaranty from the Mezzanine Financing borrower.

**1601.03 Submission**

**1601.03A Materials**

**Operating Procedures**

You must submit the following in DUS Gateway when you submit the Mortgage Loan underwriting:

- the Mezzanine Financing sizing model;
- a sources and uses of funds reflecting the Mezzanine Financing proceeds;
- any approvals associated with the Mezzanine Financing; and
- for any Mezzanine Financing that finances rehabilitation:
  - a description of the proposed rehabilitation;
  - the approved rehabilitation budget;
  - the rehabilitation timeline; and
  - the construction or rehabilitation documents.
**1601.03B** Data

**Operating Procedures**

To obtain a Commitment, you must complete the Mezzanine Financing fields in DUS Gateway.

**1601.04** Intercreditor Agreement

**Requirements**

For each Mortgage Loan with Mezzanine Financing, you and the Mezzanine Financing lender must execute an intercreditor agreement approved by Fannie Mae.

**Operating Procedures**

The Borrower must pay the legal fees if Fannie Mae engages outside counsel to review any intercreditor agreements. These fees are non-refundable, and you must pay the counsel retainer when you submit the underwriting.

**Guidance**

You may charge the Borrower your own legal and due diligence fees.

**1601.05** Servicing

**Operating Procedures**

You must service, report, and remit on the DLA Mezzanine Financing per Part V.

In all cases, you, as servicer of the DLA Mezzanine Financing, must promptly notify Fannie Mae of any default on the Mezzanine Financing.

**Section 1602** Preferred Equity

**1602.01** Description

**Definitions**

**Requirements**

Preferred Equity is an equity investment in an entity where the holder is entitled to preferred dividends, distributions, payments, or returns relative to the other equity owners.
Fannie Mae defines 2 types of Preferred Equity.

<table>
<thead>
<tr>
<th>Type</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soft Preferred Equity</td>
<td>Preferred Equity that:</td>
</tr>
<tr>
<td></td>
<td>• only requires preferred payments or returns to the holder if cash flow from the Property is sufficient to make the payments or returns after satisfying the payment, reserve, escrow, and funding obligations of the Mortgage Loan and all Property operating expenses;</td>
</tr>
<tr>
<td></td>
<td>• has organizational documents that explicitly state that the preferred return may accrue if cash flow from operations is insufficient to pay the return; and</td>
</tr>
<tr>
<td></td>
<td>• does not have a maturity date, redemption date, trigger date, or require repayment during the term of the Mortgage Loan.</td>
</tr>
<tr>
<td>Hard Preferred Equity</td>
<td>Preferred Equity that requires preferred payments or returns to the holder, regardless of whether cash flow from the Property is sufficient to make the payments or returns.</td>
</tr>
</tbody>
</table>

1602.01B Exclusions

➡️ Guidance

This Section does not apply to:

- Soft Preferred Equity that does not benefit from any remedial rights related to the failure to make or pay any preferred payment of return; or
- any Borrower organizational or capital structures relating solely to the allocation of LIHTCs.

For example, Part III, Chapter 16: Mezzanine Financing and Preferred Equity, Section 1602: Preferred Equity does not apply to:

- Soft Preferred Equity that is Preferred Equity only because of “promoted interest” or priority “waterfall” distributions in the organizational structure of the Borrower, but does not otherwise benefit from remedial rights when distributions are not paid or made.
- Instances where a provision in the Borrower’s organizational documents allows or requires a forced sale of the Property to a third party in an arm’s length transaction.
if preferred payments or returns are not made, or
for standard non-recourse guaranties.

1602.01C Eligible Mortgage Loans

Requirements

Mortgage Loans with Preferred Equity structures must:
- be newly originated;
- be fixed rate; and
- for Hard Preferred Equity,
  - have an original principal balance of at least $10 million, and
  - be flagged for MBS additional disclosure per Form 4098.

1602.01D Structures

Guidance

Preferred Equity may be structured in a variety of ways, and appear similar to a traditional equity investment, while having rights or remedies similar to debt, such as Mezzanine Financing.

To determine if the Preferred Equity is Soft or Hard, you should analyze the:
- Borrower’s organizational and capital structure;
- Borrower’s applicable joint venture or operating agreement with the Preferred Equity provider; and
- rights and remedies of the direct and indirect equity owners against the Borrower.

1602.01E Limitations

Requirements

Preferred Equity must:
- not have a maturity date, redemption date, trigger date, or require repayment during the term of the Mortgage Loan;
- have a fixed rate of return without escalations during the term of the Mortgage Loan;
not include cash flow sweeps above the stated return;
not be cross-collateralized with multiple assets;
for a deal that has both a Hard Preferred Equity return and Soft Preferred Equity return, be underwritten using the total combined preferred return to calculate the DSCR per Form 4660;
not have intercreditor or recognition agreements between you and the Preferred Equity holder; all rights of the Preferred Equity holder that you recognize must be contained in the Loan Documents;
not have side letters; all information, terms, and conditions relating to the Preferred Equity must be contained in the organizational documents; and
for Hard Preferred Equity, not be less than $1 million.

You must underwrite the Preferred Equity as Hard Preferred Equity, if any of the following apply:

- the organizational documents do not explicitly state that the preferred return may accrue if cash flow from operations is insufficient to pay the preferred return;
- there are remedies associated with operating benchmarks such as NCF, NOI, or other operating thresholds;
- there are reserves to ensure the payment of the preferred return; or
- the holder of Preferred Equity benefits from a
  - pledge of the general partner’s or managing member’s interest in the Borrower, or any direct or indirect owner of the Borrower, or
  - guaranty or indemnity from the general partner, managing member, or manager of the Borrower (or any parent or other Person Controlling any of them) with respect to the preferred payment or returns. If a guaranty or indemnity is executed by the Key Principal executing a Guaranty for the Mortgage Loan, the guaranty or indemnity of the preferred payment or returns must be expressly subordinate to the Guaranty for the Mortgage Loan.

1602.01F   Lender's Loan Application

[✓] Requirements

Your loan application form must:

- require the Borrower to indicate whether it has or intends to obtain Preferred Equity as part of its organizational or capital structure; and
- inform the Borrower that you may delay approval or revoke any prior
For any Mortgage Loan with Preferred Equity, you must comply with the following table.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Requirements</th>
</tr>
</thead>
</table>
| Guaranty            | If the holder of the Preferred Equity benefits from a guaranty or similar indemnity that contains recourse events or similar obligations not otherwise contained in the Loan Documents, you must  
  • submit the modifications to Fannie Mae for review and approval, and  
  • if approved by Fannie Mae, add the events or obligations to the appropriate Loan Document. |
| Refinance Analysis  | Prepare a refinance analysis that:  
  • incorporates the terms of both the Mortgage Loan and the Preferred Equity;  
  • demonstrates that the Borrower will  
    - maintain a positive equity position in the Property throughout the term of the Mortgage Loan, or  
    - have some other incentive (e.g., continuing cash flow) to remain committed to the Property and its successful operation; and  
  • concludes that there will be sufficient cash flow, NCF growth, and residual value to pay off the Mortgage Loan and the Preferred Equity (if applicable) at maturity. |
<table>
<thead>
<tr>
<th>Topic</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Replacement Guarantor</td>
<td>Identify an acceptable replacement guarantor that complies with the Guide for Key Principals for any Mortgage Loan with</td>
</tr>
<tr>
<td></td>
<td>• Hard Preferred Equity, and</td>
</tr>
<tr>
<td></td>
<td>• Soft Preferred Equity if modifications to the transfer provisions of the Loan Documents are requested for the benefit of the Soft Preferred</td>
</tr>
<tr>
<td></td>
<td>Equity holder.</td>
</tr>
<tr>
<td>Loan Documents</td>
<td>Use the Loan Documents for Preferred Equity per the Loan Documentation Requirements (Form 6000) for any Mortgage Loan with</td>
</tr>
<tr>
<td></td>
<td>• Hard Preferred Equity, and</td>
</tr>
<tr>
<td></td>
<td>• Soft Preferred Equity if modifications to the transfer provisions of the Loan Documents are requested for the benefit of the Soft Preferred</td>
</tr>
<tr>
<td></td>
<td>Equity holder.</td>
</tr>
</tbody>
</table>

**1602.03 Hard Preferred Equity**

**1602.03A Submission**

**Operating Procedures**

You must submit the following in DUS Gateway:

- a sources and uses of funds reflecting the investment of the Hard Preferred Equity holder;

- Exhibit B to the Multifamily Underwriting Certificate (Borrower) (Form 6460.Borrower);

- a complete organizational chart of the Borrower, including upper tier entities or other owners, that shows the respective ownership percentages of Persons holding any
  - direct or indirect control of the management and operations of the Borrower,
  - ownership of a direct or indirect interest of 25% or more in the Borrower, and
  - ownership of any other direct or indirect interest in the Borrower that constitutes Hard Preferred Equity; and
- copies of the organizational and other documents that govern the
  - Hard Preferred Equity, and
  - Hard Preferred Equity holder, including any
    - term sheets,
    - private placement memoranda,
    - operating agreements,
    - pledge agreements,
    - guaranties, or
    - similar arrangements.

1602.03B  Outside Counsel and Due Diligence Fees

Operating Procedures

The Borrower must pay the legal fees if Fannie Mae engages outside counsel.

These fees are non-refundable, and you must pay the counsel retainer when you submit the underwriting.

Guidance

You may charge the Borrower your own legal and due diligence fees.
## Chapter 17  Structured Transactions

### Section 1701  Description

- **Requirements**

  Structured Transactions consist of 1 or more Mortgage Loans governed by a master agreement, regardless of individual loan size or cross-collateralization.

  There are 2 types of Structured Transactions: Credit Facilities and Bulk Deliveries. The terms for each Structured Transaction vary and are negotiated based on the specific Properties and Sponsor needs.

### Section 1702  Credit Facilities

- **Requirements**

  A Credit Facility is a Structured Transaction that

  - is governed by a Master Credit Facility Agreement, and
  - includes cross-collateralized and cross-defaulted Mortgage Loans and Properties.

- **Guidance**

  A Credit Facility may also include:

  - variable rate debt, fixed rate debt, or a combination of both;
  - varied loan maturities and repayment terms;
  - the ability to increase borrowing based on
    - increases in the aggregate DSCR, and
    - decreases in the aggregate LTV of the Properties;
  - the ability to increase the amount of the Credit Facility by delivering additional Properties as collateral; or
  - collateral substitutions and releases.

- **Requirements**

<table>
<thead>
<tr>
<th>Product Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Transaction Size</td>
</tr>
</tbody>
</table>
### Product Description

<table>
<thead>
<tr>
<th>Borrowers</th>
<th>Must have:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• common Control per the Master Credit Facility Agreement; and</td>
</tr>
<tr>
<td></td>
<td>• identical ownership, although ownership percentage may vary.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fannie Mae Due Diligence Fee</th>
<th>$1,500 for each Property</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• in the initial Credit Facility, and</td>
</tr>
<tr>
<td></td>
<td>• added or substituted post-closing.</td>
</tr>
</tbody>
</table>

### Operating Procedures

Credit Facilities require intensive Fannie Mae involvement, including the assignment of an in-house legal lead who will direct outside counsel services.

Fannie Mae will engage outside counsel at your expense to prepare all related documentation.

You may require the Borrower to

- pay these legal fees and expenses, and
- fund a deposit for their payment.

### Section 1703

#### Bulk Deliveries

**Requirements**

A Bulk Delivery is a Structured Transaction that:

- consists of multiple single-asset MBS Mortgage Loans with the same Sponsor that are governed by a Bulk Delivery Agreement; and
- includes the ability to
  - add Mortgage Loans in the future, or
  - substitute a new Property for an existing Property as collateral.
<table>
<thead>
<tr>
<th><strong>Product Description</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Minimum Initial Transaction Size</strong></td>
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<tr>
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<td></td>
</tr>
<tr>
<td><strong>Loss Sharing</strong></td>
</tr>
<tr>
<td><strong>Loan Structure</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Borrowers</strong></td>
</tr>
<tr>
<td><strong>Fannie Mae Due Diligence Fee</strong></td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td><strong>Additions</strong></td>
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<tr>
<td><strong>Substitutions</strong></td>
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<tr>
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<tr>
<td></td>
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<tr>
<td></td>
</tr>
</tbody>
</table>
### Product Description

| **Substitution Test** | A Property may be substituted if the substitute Property's:
| | • DSCR is at least the greater of the released Property's
| | - original DSCR, or
| | - DSCR immediately before the release; and
| | • LTV does not exceed the lesser of the released Property's
| | - original LTV, or
| | - LTV immediately before the release. |
| **Substitution Fee** | On or before the release date, you must collect a fee:
| | • that will be equally shared between you and Fannie Mae, and
| | • equals the greater of
| | - 50 bps multiplied by the Mortgage Loan's current UPB, or
| | - $50,000. |
| **Releases** | Occur when the Mortgage Loan is:
| | • fully repaid, or
| | • assumed. |
| **MBS Disclosure** | All Mortgage Loans must have Additional Disclosure. |
| **Supplemental Mortgage Loans** | Mortgage Loans are eligible for Supplemental Mortgage Loans. |
| **Assumptions** | • A Bulk Delivery may be assumed in its entirety.
| | • Each Mortgage Loan may only be assumed after it is released from the Bulk Delivery. |

**Operating Procedures**

You must use
the Bulk Delivery Agreement, and
Fannie Mae's Loan Documents.

Fannie Mae may engage outside counsel at your expense to prepare the Bulk Delivery Agreement.

You may require the Borrower to

- pay these legal fees, and
- fund a deposit for their payment.
## Eligibility

A Choice Refinance Loan is a Portfolio Mortgage Loan that is eligible for a streamlined underwriting process which reduces origination costs.

To use the Choice Refinance Loan streamlined underwriting, you must ensure:

<table>
<thead>
<tr>
<th>Topic</th>
<th>Requirements</th>
</tr>
</thead>
</table>
| Prerequisites    | • You have been the Servicer of the Portfolio Mortgage Loan for the last 12 months.  
                  • The Choice Refinance Loan complies with Form 4660.  
                  • The Portfolio Mortgage Loan is not in default.  
                  • The Borrower has demonstrated a commitment to its obligations under the Portfolio Mortgage Loan by  
                    - maintaining the Property in good physical condition,  
                    - providing competent Property management services, and  
                    - complying with the requirements under the Loan Documents.  
                  • The Property  
                    - is operating on a stabilized basis,  
                    - has a most recent overall inspection rating of 1 or 2, and  
                    - does not show any adverse change in Property condition, except normal wear and tear, or any life safety issues during the underwriting inspection. |
### Loan History

- The Portfolio Mortgage Loan:  
  - has a good payment history, with no delinquencies of 60 days or more during the 3 years immediately preceding the proposed refinance;  
  - is not on the current Fannie Mae Watchlist;  
  - had no declared non-monetary defaults that remained uncured for more than 120 days;  
  - was underwritten and delivered per then-applicable Guide provisions; and  
  - is serviced per the Guide.

- There were no unauthorized assumptions or changes in ownership, and no unauthorized Liens filed against the Property.

### Additional Collateral

The Portfolio Mortgage Loan does not have a Letter of Credit or additional cash collateral.

### Pricing

The pricing that was approved for the Portfolio Mortgage Loan does not apply to the Choice Refinance Loan.

### Underwriting

The Choice Refinance Loan, regardless of the Underwritten DSCR, must be of sufficient credit quality to repay the refinanced Mortgage Loan without individually negotiated debt relief.

---

### Section 1802 Lender Delegation

✅ Requirements

You are delegated to underwrite the Choice Refinance Loan if:

- the Portfolio Mortgage Loan and the Choice Refinance Loan fall under the same Pre-Review categories in the Form 4660, and Fannie Mae approved those same Pre-Review categories for the Portfolio Mortgage Loan; or

- the Choice Refinance Loan falls under the Pre-Review categories in the Form 4660, and has the same structure as the Portfolio Mortgage Loan, even though the Portfolio Mortgage Loan was not a Pre-Review Mortgage Loan when it was Committed.
In addition, you are delegated to approve a Non-Contiguous Parcel structure if the same structure was approved for the Portfolio Mortgage Loan.

**Section 1803**  
**Prepayment Premiums**

☑️ **Requirements**

You must not waive any:

- Prepayment Premium based on required yield maintenance; or
- portion of the Minimum 1% Prepayment Premium above the required yield maintenance if the Portfolio Mortgage Loan
  - has a minimum Prepayment Premium other than 1%,
  - will be refinanced before the Yield Maintenance Period End Date, or
  - is a fixed rate MBS Mortgage Loan with an Issue Date before April 1, 1999.

➡️ **Guidance**

For all other Choice Refinance Loans:

<table>
<thead>
<tr>
<th>Cash or MBS</th>
<th>You may waive the Minimum 1% Prepayment Premium...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Rate</td>
<td>• after the Yield Maintenance Period End Date, or</td>
</tr>
<tr>
<td></td>
<td>• for declining Prepayment Premiums during the 6</td>
</tr>
<tr>
<td></td>
<td>months before the Maturity Date.</td>
</tr>
<tr>
<td>ARM and SARM</td>
<td>after any lockout if the Portfolio Mortgage Loan</td>
</tr>
<tr>
<td></td>
<td>• is being refinanced with a fixed rate 7- or 10-year term, and</td>
</tr>
<tr>
<td></td>
<td>• was either</td>
</tr>
<tr>
<td></td>
<td>- an ARM Loan with a Plan Number of 02160, 02254,</td>
</tr>
<tr>
<td></td>
<td>02255, 03471, or</td>
</tr>
<tr>
<td></td>
<td>- a SARM Loan with a Plan Number of 03488.</td>
</tr>
</tbody>
</table>

**Section 1804**  
**Streamlined Underwriting**

1804.01  
**Property Condition Assessment (PCA)**

➡️ **Guidance**
You may use the Streamlined Physical Condition Assessment Requirements (Form 4099.A).

### 1804.02 Environmental Site Assessment

**Requirements**

A Phase I Environmental Site Assessment is not required if:

- 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 enters into an Environmental Indemnity Agreement (Form 6085); and
- you confirm that the Borrower is appropriately implementing any existing O&M Plans for the Property.

### 1804.03 Survey

**Requirements**

Part II, Chapter 3: Legal Compliance, Section 305: Survey does not apply if the:

- new mortgagee title insurance policy includes all title exceptions, including those that would appear based upon the most recent survey provided by the Borrower (whether it is the original survey for the Portfolio Mortgage Loan or a subsequent one);
- Borrower certifies that there have been no changes or improvements to the Property since the later of the date of the survey referenced in the original title policy, or most recently completed; and
- Property inspection report reveals no evidence of new construction or encroachments on the site from construction on adjoining properties.

### 1804.04 Borrower Structure and Experience
Requirements

You must:

- Obtain a new Multifamily Underwriting Certificate (Form 6460 series) from the Borrower, any Guarantor, and any Key Principal.
- Obtain updated copies of the organizational documents of the Borrower and the Key Principal, and confirm that the Borrower’s organizational structure complies with Part II, Chapter 3: Legal Compliance.
- Confirm that no unauthorized change has been made to the Borrower's organizational structure or documents.
- Obtain a new good standing certificate from the jurisdiction where the Borrower is organized.

1804.05 Borrower Credit

Requirements

You must obtain and review new financial statements for all parties relevant to the transaction.

For Small Mortgage Loans, you must:

- confirm that the FICO scores of any such individuals comply with Part III, Chapter 9: Small Mortgage Loans, Section 911.02: FICO Scoring; and
- ensure that the net worth and liquidity complies with Part III, Chapter 9: Small Mortgage Loans, Section 910.06: Net Worth and Liquid Assets.

Guidance

If the Borrower or any Key Principal, Guarantor, or Principal submitted financial statements within the past 12 months, then in lieu of new financial statements, you may accept a certification that there has been no material adverse change from the financial condition or credit standing reflected in the financial statements.

1804.06 Property Management

Guidance

You may elect not to review the Property management or agreement per Part II, Chapter 1: Attributes and Characteristics, Section 112:
### Replacement Reserve

**Requirements**

You must ensure the Replacement Reserve is funded as follows:

<table>
<thead>
<tr>
<th>If...</th>
<th>Then...</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Property&lt;br&gt;• is located in a Pre-Review Market that is not eligible for delegation at any Tier per Section II of the <strong>Form 4660</strong>, and&lt;br&gt;• the market was a Pre-Review Market when the Portfolio Mortgage Loan was originated.</td>
<td>The Borrower must fully fund the Replacement Reserve.</td>
</tr>
<tr>
<td>The Property&lt;br&gt;• is located in a Pre-Review Market that is not eligible for delegation at any Tier per Section II of the <strong>Form 4660</strong>, but&lt;br&gt;• the market was not a Pre-Review Market when the Portfolio Mortgage Loan was originated.</td>
<td>You must determine the Replacement Reserve funding per Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve.</td>
</tr>
<tr>
<td>The Property is located in&lt;br&gt;• a Strong Market, &lt;br&gt;• a Nationwide Market, or&lt;br&gt;• a Pre-Review Market that is eligible for Tier 3 and Tier 4 Mortgage Loans on a delegated basis per Section II of the <strong>Form 4660</strong>.</td>
<td>You must determine the Replacement Reserve funding per Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve.</td>
</tr>
</tbody>
</table>

### Real Estate Tax and Insurance Escrows

**Requirements**

You must require T&I escrow deposits for a Tier 2 Choice Refinance Loan.
unless Fannie Mae waived the T&I escrow for the Portfolio Mortgage Loan. If you do not require T&I escrow deposits, then you must comply with Part II, Chapter 4: Inspections and Reserves, Section 405: Escrow Requirements for Taxes and Insurance.

**Section 1805** Property Ownership Change

Guidance

If at the time of the refinance of the Portfolio Mortgage Loan the Property is being sold to a new owner, then you may use the streamlined underwriting per Part III, Chapter 18: Choice Refinance Loans, Section 1804.01: Property Condition Assessment (PCA) and Part III, Chapter 18: Choice Refinance Loans, Section 1804.02: Environmental Site Assessment provided that you comply with Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals for underwriting the Borrower, Key Principals, Guarantors, and Principals.

You may also use the streamlined underwriting per Part III, Chapter 18: Choice Refinance Loans, Section 1801: Eligibility for Portfolio Mortgage Loans that were assumed before being refinanced as a Choice Refinance Loan.
Chapter 19  
Bond Transactions and Credit Enhancement Mortgage Loans

Section 1901  
Description

_guidance

A Bond credit enhancement may involve

- a Standby Credit Enhancement Instrument,
- a Direct Pay Credit Enhancement Instrument,
- a secondary market Credit Enhancement Instrument, or
- an MBS.

In addition to credit enhancing the Bonds, both the Standby Credit Enhancement Instrument and the Direct Pay Credit Enhancement Instrument may provide

- liquidity support, and
- if the Bonds are issued under an Open Indenture, credit enhancement of the Mortgage Loan.

Requirements

You must coordinate all aspects of a Credit Enhancement Mortgage Loan transaction with your counsel and Fannie Mae’s counsel.

For Bonds that are privately placed or purchased directly, you must consult with the Fannie Mae Deal Team and Fannie Mae’s counsel for pricing and disclosure requirements.

For a Forward Commitment Credit Enhancement Mortgage Loan, you must also comply with Part III, Chapter 20: Forward Commitments.

<table>
<thead>
<tr>
<th>Terms</th>
<th>Credit Enhancement Instrument</th>
<th>MBS for Bonds</th>
</tr>
</thead>
</table>
| Fannie Mae Guarantees  | • Bond P&I for Closed Indenture Bonds.  
                         | • Mortgage Loan P&I for Open Indenture Bonds.  
<pre><code>                     | • Up to 25 basis points of Bond Issuer fees. | Bond P&amp;I. |
</code></pre>
<table>
<thead>
<tr>
<th>Terms</th>
<th>Credit Enhancement Instrument</th>
<th>MBS for Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basis</td>
<td>Either</td>
<td>Direct Pay.</td>
</tr>
<tr>
<td></td>
<td>• Standby, or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Direct Pay.</td>
<td></td>
</tr>
<tr>
<td>Interest Rate Type</td>
<td>Either</td>
<td>Either</td>
</tr>
<tr>
<td></td>
<td>• fixed rate, or</td>
<td>• fixed rate, or</td>
</tr>
<tr>
<td></td>
<td>• variable rate Bonds.</td>
<td>• variable rate Bonds</td>
</tr>
<tr>
<td></td>
<td></td>
<td>with a SARM Loan.</td>
</tr>
<tr>
<td>Documents</td>
<td>• Any new Bond issued must be</td>
<td></td>
</tr>
<tr>
<td></td>
<td>documented on Fannie Mae Bond</td>
<td></td>
</tr>
<tr>
<td></td>
<td>and Loan Document forms.</td>
<td></td>
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<td></td>
<td>• For substitute credit</td>
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<tr>
<td></td>
<td>enhancements where the existing</td>
<td></td>
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<tr>
<td></td>
<td>Bonds remain outstanding, the</td>
<td></td>
</tr>
<tr>
<td></td>
<td>existing Bond and Loan Documents</td>
<td>be:</td>
</tr>
<tr>
<td></td>
<td>• amended and restated on</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fannie Mae form documents; or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• amended only as necessary per</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fannie Mae.</td>
<td></td>
</tr>
<tr>
<td>Credit</td>
<td>Credit Enhancement Instrument</td>
<td>Mortgage Loan is originated with</td>
</tr>
<tr>
<td>Enhancement</td>
<td>is delivered</td>
<td>Bond issuance and the MBS, when</td>
</tr>
<tr>
<td>Timing</td>
<td>• on the Bond issuance date for</td>
<td>issued, is deposited with the Bond</td>
</tr>
<tr>
<td></td>
<td>a new Bond, or</td>
<td>Trustee.</td>
</tr>
<tr>
<td></td>
<td>• when Fannie Mae provides new</td>
<td></td>
</tr>
<tr>
<td></td>
<td>or substitute credit</td>
<td></td>
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<tr>
<td></td>
<td>enhancement.</td>
<td></td>
</tr>
</tbody>
</table>

**Section 1902**  
Outside Counsel

**1902.01 Engagement**

- **Requirements**

  You must request Fannie Mae's outside counsel assignment before any transaction structuring discussions begin.

- **Operating Procedures**
To request Fannie Mae’s outside counsel assignment, submit a Counsel Designation Request (Form 4625.B) to counsel_designations@fanniemae.com.

Fannie Mae selects its own outside counsel but may consider your request for a specific counsel.

### 1902.02 Fees

- **Requirements**

  You must pay Fannie Mae’s outside counsel fees and costs regardless of whether the transaction closes.

- **Guidance**

  You may charge the Borrower for Fannie Mae’s outside counsel fees and costs.

  For a Credit Enhancement Instrument, you may choose to have Fannie Mae’s outside counsel:
  - prepare the Loan Documents, and
  - review title insurance and survey matters.

  If Fannie Mae’s outside counsel performs these services:
  - the counsel will only represent Fannie Mae, not you; and
  - you will be responsible for the additional fees.

### Section 1903 Third Parties

#### 1903.01 Generally

- **Requirements**

  You must coordinate with all third parties and their counsels to ensure the transaction complies with their requirements.

  Fannie Mae reserves the right, in its sole discretion, to reject any third party’s involvement, including:
  - Bond Issuer;
  - Bond Trustee;
  - Bond underwriter;
any Remarketing Agent;
any Bond liquidity provider; and
any Interest Rate Cap provider.

1903.02 Remarketing Agent

Requirements

You must ensure any Remarketing Agent:

- currently remarkets at least $250 million of weekly variable rate demand Bonds;
- has continuously remarketed weekly variable rate demand Bonds for the past 3 years;
- has a minimum net worth of $5 million; and
- has a minimum broker line of credit sufficient for warehousing $100 million of rated Bonds at any time.

Operating Procedures

Fannie Mae's counsel must confirm that the Remarketing Agreement terms comply with Fannie Mae requirements.

Section 1904 Legal Documents

1904.01 Generally

Operating Procedures

Fannie Mae's counsel will advise your counsel regarding the appropriate Fannie Mae Loan Documents for the Bond structure.

Immediately after Bond closing, you must:

- obtain a final Bond transcript from Bond counsel;
- submit it via CD to Multifamily Certification and Custody; and
- maintain a copy in your Servicing File.

1904.02 Credit Enhancement Instrument

Guidance
Fannie Mae’s Credit Enhancement Instrument Loan Documents presume the Bond Issuer will:

- be the initial lender and secured party under the Security Instrument; and
- immediately assign the Multifamily Bond Note and Security Instrument to Fannie Mae and the Bond Trustee, as co-assignees.

**Requirements**

You must ensure that Fannie Mae (not you or the Bond Issuer) is named as the counterparty or beneficiary in the Credit Enhancement Mortgage Loan agreements and collateral assignments.

**Operating Procedures**

Fannie Mae and its counsel will:

- prepare the
  - Credit Enhancement Commitment Letter,
  - credit enhancement documents,
  - multifamily Note; and

- review and approve all Bond documents.

You may ask Fannie Mae’s counsel to also prepare other Loan Documents, or your counsel may prepare these documents.

---

**1904.03 MBS for Bonds**

**Operating Procedures**

The MBS For Bonds loan structure is identical to a standard Mortgage Loan. Your counsel must:

- Prepare the standard 6000 series Loan Documents.
- Consult with Fannie Mae’s counsel to
  - integrate the standard Loan Document provisions into the Bond transaction structure, and
  - incorporate any Bond related modifications into the Loan Documents.

---

**1904.04 Affordable Regulatory Agreements**
Operating Procedures

1. If an Affordable Regulatory Agreement must be recorded before the Security Instrument to ensure the Bond’s tax-exempt status, Fannie Mae’s counsel will provide an Affordable Regulatory Agreement rider subordinating it to the Security Instrument.

2. You must ensure the Bond Issuer attaches the rider to the Affordable Regulatory Agreement.

Section 1905 Fannie Mae LIHTC Investment in Credit-Enhanced Bonds

Guidance

Per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 710.02: Fannie Mae Credit-Enhanced Tax-Exempt Bond Issuance, Fannie Mae may be a LIHTC investor in the Borrower for a project financed by tax-exempt Bonds that Fannie Mae will also be credit enhancing. To avoid potential adverse tax consequences, if Fannie Mae is a LIHTC investor on a Credit Enhancement Mortgage Loan, Fannie Mae’s counsel will prepare the LIHTC agreement among the

- Bond Issuer,
- Borrower, and
- Fannie Mae.

Requirements

You must determine if Fannie Mae will be a LIHTC investor on a Credit Enhancement Mortgage Loan. If so, you must confirm:

- Fannie Mae does not hold a direct equity interest in the Borrower;
- Fannie Mae’s indirect equity interest in the Borrower is less than 50%;
- the IRS documentation filed for the Bond issuance shows that none of the Bond proceeds were applied to pay any portion of Fannie Mae’s Credit Enhancement Fee;
- the Bond Issuer, Borrower, and Fannie Mae enter into a LIHTC agreement acknowledging Fannie Mae’s equity interest; and
- any LIHTC agreement required notices to the Borrower and Bond Issuer were provided.

Section 1906 Credit Enhancing Fixed Rate Bonds
### Requirements

<table>
<thead>
<tr>
<th>Terms</th>
<th>Credit Enhancement Instrument</th>
<th>MBS for Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate Reset</td>
<td>• Used if the Bonds - have a fixed rate for a specified period before maturity, and - require remarketing on scheduled mandatory tender dates. • Occurs after the fixed rate period per the Bond and Loan Documents.</td>
<td>Not available.</td>
</tr>
<tr>
<td>Loan Term</td>
<td>Credit Enhancement Mortgage Loan must: • for a Property with new 4% LIHTCs, have a term of at least 10 years, with a maximum of 30 years; or • for a Property without new 4% LIHTCs, have a term less than or equal to the Bond term, with a maximum of 30 years.</td>
<td></td>
</tr>
<tr>
<td>Fannie Mae Fees</td>
<td>Credit Enhancement Fee</td>
<td>Guaranty Fee</td>
</tr>
<tr>
<td>Trustee Fee and Bond Issuer Fee</td>
<td>Underwritten as • an operating expense, or • part of the Gross Note Rate.</td>
<td>Underwritten as an operating expense.</td>
</tr>
</tbody>
</table>
### Terms

<table>
<thead>
<tr>
<th>Gross Note Rate</th>
<th>Credit Enhancement Instrument</th>
<th>MBS for Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sum of the</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Bond interest rate,</td>
<td>• Bond interest rate,</td>
</tr>
<tr>
<td></td>
<td>• Facility Fee (calculated per</td>
<td>• Guaranty Fee, and</td>
</tr>
<tr>
<td></td>
<td>Part III, Chapter 19: Bond</td>
<td>• Servicing Fee.</td>
</tr>
<tr>
<td></td>
<td>Transactions and Credit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Enhancement Mortgage Loans,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Section 1908: Facility Fee)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>divided by the Bond UPB, and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• trustee fee and Bond Issuer</td>
<td></td>
</tr>
<tr>
<td></td>
<td>fee, if they are not underwritten</td>
<td></td>
</tr>
<tr>
<td></td>
<td>as an operating expense.</td>
<td></td>
</tr>
</tbody>
</table>

### 1906.02 Multiple Fixed Rate Bonds

#### Operating Procedures

If the fixed rate Bond issue has multiple Bonds with different maturity dates and interest rates, the fixed rate for the entire Bond issue will be the weighted average of the individual Bond rates, and considering the different maturities.

### Section 1907 Credit Enhancing Variable Rate Bonds

#### 1907.01 Terms

#### Guidance

Fannie Mae does not provide liquidity support for variable rate demand Bonds.

#### Requirements
<table>
<thead>
<tr>
<th>Terms</th>
<th>Credit Enhancement Instrument</th>
<th>MBS for Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable Interest Rate</td>
<td>A Bond and Credit Enhancement Mortgage Loan must have an interest rate linked to</td>
<td>• Mortgage Loan must comply with Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans.</td>
</tr>
<tr>
<td></td>
<td>• the SIFMA Municipal Swap Index,</td>
<td>• Bonds must have an interest rate linked to a SOFR-based index.</td>
</tr>
<tr>
<td></td>
<td>• an Index that adjusts weekly, or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• a SOFR-based index.</td>
<td></td>
</tr>
<tr>
<td>Bond Liquidity</td>
<td>You must obtain Fannie Mae approval for any third party providing Bond liquidity support.</td>
<td></td>
</tr>
<tr>
<td>No New 4% LIHTCs</td>
<td>Credit Enhancement Mortgage Loan must have a term of at least 5 years, with a maximum of 30 years.</td>
<td>Credit Enhancement Mortgage Loan must have a:</td>
</tr>
<tr>
<td></td>
<td>• term of at least 5 years, with a maximum of 30 years; and</td>
<td>• term of at least 5 years, with a maximum of 30 years; and</td>
</tr>
<tr>
<td></td>
<td>• Maturity Date coinciding with the</td>
<td>• Maturity Date coinciding with the</td>
</tr>
<tr>
<td></td>
<td>• final Bond maturity date, adjusted for applicable payment timing differences, or</td>
<td>• final Bond maturity date, adjusted for applicable payment timing</td>
</tr>
<tr>
<td></td>
<td>• initial Bond tender and remarketing, if the Bond has a scheduled mandatory tender date for remarketing.</td>
<td>differences, or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- initial Bond tender and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>remarketing, if the Bond has a scheduled mandatory tender date for</td>
</tr>
<tr>
<td></td>
<td></td>
<td>remarketing.</td>
</tr>
<tr>
<td>Terms</td>
<td>Credit Enhancement Instrument</td>
<td>MBS for Bonds</td>
</tr>
<tr>
<td>---------------------</td>
<td>------------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>New 4% LIHTCs</td>
<td>Credit Enhancement Mortgage Loan must have a term of at least 10 years, with a maximum of 30 years.</td>
<td>Credit Enhancement Mortgage Loan must have a:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• term of at least 10 years, with a maximum of 30 years; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Maturity Date coinciding with the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- final Bond maturity date, adjusted for applicable payment timing differences, or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- initial Bond tender and remarketing, if the Bond has a scheduled mandatory</td>
</tr>
<tr>
<td></td>
<td></td>
<td>tender date for remarketing.</td>
</tr>
<tr>
<td>Variable Underwriting Rate</td>
<td>Determined by Fannie Mae.</td>
<td>Per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans.</td>
</tr>
<tr>
<td>Amortization</td>
<td>For a variable rate Credit Enhancement Mortgage Loan using an Interest Rate Cap, use the greater of the</td>
<td>Per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans.</td>
</tr>
<tr>
<td></td>
<td>• Variable Underwriting Rate, or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• actual Cap Strike Rate.</td>
<td></td>
</tr>
<tr>
<td>Maximum SARM Loan</td>
<td>Per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans.</td>
<td></td>
</tr>
<tr>
<td>PRF</td>
<td>You must establish a PRF.</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>Fannie Mae Fees</td>
<td>Credit Enhancement Fee.</td>
<td>Guaranty Fee.</td>
</tr>
<tr>
<td>Terms</td>
<td>Credit Enhancement Instrument</td>
<td>MBS for Bonds</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>------------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Trustee Fee and Bond Issuer Fee</td>
<td>Underwritten as</td>
<td>Underwritten as an operating expense.</td>
</tr>
<tr>
<td></td>
<td>• an operating expense, or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• part of the Gross Note Rate.</td>
<td></td>
</tr>
<tr>
<td>Gross Note Rate</td>
<td>Sum of the</td>
<td>Sum of the</td>
</tr>
<tr>
<td></td>
<td>• Bond interest rate,</td>
<td>• Bond interest rate,</td>
</tr>
<tr>
<td></td>
<td>• Facility Fee (calculated per Part III, Chapter 19: Bond Transactions and Credit</td>
<td>• Guaranty Fee, and</td>
</tr>
<tr>
<td></td>
<td>Enhancement Mortgage Loans, Section 1908: Facility Fee) divided by the Bond UPB,</td>
<td>• Servicing Fee.</td>
</tr>
<tr>
<td></td>
<td>• trustee fee and Bond Issuer fee, if they are not underwritten as an operating expense, and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• cap cost factor.</td>
<td></td>
</tr>
</tbody>
</table>

1907.02  Principal Reserve Fund

Operating Procedures
### Principal Reserve Fund Process

#### Borrower Election

Before Commitment, the Borrower must select 1 of the following options to redeem Bonds:

- **Minimum Dollar Balance:**
  - Required option for a non-single-asset entity Borrower.
  - PRF deposits accumulate until the balance is at least $100,000.
  - Bonds eligible for redemption are redeemed in $100,000 increments.

- **Minimum Percentage Balance:**
  - PRF deposits accumulate until the balance is at least $100,000 greater than 20% of the original Bond principal amount.
  - Bonds eligible for redemption are redeemed in $100,000 increments, but the redemption payments may not reduce the PRF balance below 20% of the original Bond principal amount.

#### PRF Deposit Amount

PRF deposits represent the principal amortization amount of the Credit Enhancement Mortgage Loan based on

- level P&I payments throughout the Bond term, and
- amortization per Part III, Chapter 19: Bond Transactions and Credit Enhancement Mortgage Loans, Section 1907.01: Terms.

#### PRF Deposit Schedule

On the Mortgage Loan Origination Date, you must calculate and attach the Schedule of Deposits to the Principal Reserve Fund to the Reimbursement Agreement.

---

**1907.03 Interest Rate Cap**

- ✓ Requirements
<table>
<thead>
<tr>
<th>Terms</th>
<th>You must ensure the third-party Interest Rate Cap...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate Cap</td>
<td>For a variable rate Credit Enhancement Mortgage Loan with variable rate Bonds, is purchased and maintained for the entire time the variable rate Bonds are credit enhanced.</td>
</tr>
<tr>
<td>Index</td>
<td>Has the same Index as the variable rate Bonds.</td>
</tr>
<tr>
<td>Interest Rate Cap Provider</td>
<td>Is obtained from an approved provider listed on <a href="https://multifamily.fanniemae.com">https://multifamily.fanniemae.com</a>.</td>
</tr>
<tr>
<td>Initial Interest Rate Cap</td>
<td>Notional Amount equals the Bond UPB when the Interest Rate Cap is purchased.</td>
</tr>
<tr>
<td>Minimum Interest Rate Cap</td>
<td>Agreement remains continually in place until the earlier of</td>
</tr>
<tr>
<td></td>
<td>• 5 years, or</td>
</tr>
<tr>
<td></td>
<td>• the remaining Bond term.</td>
</tr>
<tr>
<td>Replacement Cap</td>
<td>Replacement is purchased if the existing Interest Rate Cap expires before the variable rate Bond conversion or Maturity Date.</td>
</tr>
<tr>
<td>Replacement Cap Strike Rate</td>
<td>Replacement Cap Strike Rate is the same or lower than the initial Interest Rate Cap Strike Rate.</td>
</tr>
<tr>
<td>Cap cost factor</td>
<td>Cost factor is included in the Variable Underwriting Rate per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.03: Including the Cap Cost Factor in the Variable Underwriting Rate.</td>
</tr>
<tr>
<td>Interest Rate Cap Reserve</td>
<td>Cash reserve:</td>
</tr>
<tr>
<td></td>
<td>• is evaluated at the end of each 12-month period to determine if the cost of the replacement Interest Rate Cap has increased, based on market conditions; and</td>
</tr>
<tr>
<td></td>
<td>• future deposits are not decreased even if the future Interest Rate Cap cost has decreased.</td>
</tr>
<tr>
<td>Terms</td>
<td>You must ensure the third-party Interest Rate Cap...</td>
</tr>
<tr>
<td>-------------</td>
<td>-----------------------------------------------------</td>
</tr>
<tr>
<td>Documents</td>
<td>Documents are:</td>
</tr>
<tr>
<td></td>
<td>• on acceptable forms; and</td>
</tr>
<tr>
<td></td>
<td>• delivered to Fannie Mae, including the</td>
</tr>
<tr>
<td></td>
<td>- Interest Rate Cap Agreement, and</td>
</tr>
<tr>
<td></td>
<td>- Interest Rate Cap Reserve and Security</td>
</tr>
<tr>
<td></td>
<td>Agreement (Form 6442).</td>
</tr>
</tbody>
</table>

**Operating Procedures**

Fannie Mae will engage outside counsel at your expense to review all Interest Rate Cap-related documents.

### 1907.04 Cap Strike Rate

**Operating Procedures**

The Borrower must purchase an Interest Rate Cap with a Cap Strike Rate that is determined

- for a Credit Enhancement Instrument, by Fannie Mae, or
- for an MBS for Bonds, per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.02: Determining the Cap Strike Rate.

### 1907.05 Interest Rate Cap Reserve

**Requirements**

You must ensure the Borrower fully funds a cash reserve to purchase replacement Interest Rate Caps.

**Operating Procedures**

- If the initial Interest Rate Cap Agreement term is 5 years, you must ensure the Borrower funds the cash reserve with each monthly Mortgage Loan payment during the term.
- Calculate the monthly reserve payments for the first 12 months using the estimated cost of a replacement Interest Rate Cap with a 5-year term and
the initial Cap Strike Rate.

- If the initial Interest Rate Cap term is more than 5 years, you must ensure the Borrower’s monthly reserve payments for the replacement cap begin no later than 5 years before the existing Interest Rate Cap expires.

**Guidance**

For example, if

- a 5-year initial Interest Rate Cap is purchased with a 10-year term and a 6.00% Cap Strike Rate, and

- the cost of a replacement 5-year cap with a 6.00% Cap Strike Rate is $140,000, then

- the monthly reserve for the first 12 months would be $2,333.33 ($140,000 cost ÷ 60 months).

### 1907.06 Interest Rate Cap Reserve Adjustments

**Requirements**

You must evaluate the Interest Rate Cap reserve every 12 months. If the replacement Interest Rate Cap cost:

- increased, you must raise the monthly reserve payment to purchase the replacement Interest Rate Cap before the existing Interest Rate Cap expires; or

- decreased, do not adjust the reserve.

When a replacement Interest Rate Cap is purchased, the reserve cycle resets to match the term of the new Interest Rate Cap. Any amount remaining in the reserve after purchasing the replacement Interest Rate Cap must be used to fund the subsequent reserve.

### 1907.07 Interest Rate Cap Contract Documentation and Delivery

**Requirements**

For credit enhancements using:

- an MBS, you must comply with Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.05: Interest Rate Cap Contract Documentation and Delivery; or

- a Credit Enhancement Instrument, this Section applies.
## Operating Procedures

<table>
<thead>
<tr>
<th>Topic</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cap Provider Payment</td>
<td>You must ensure the Interest Rate Cap provider pays you or the Bond Trustee directly</td>
</tr>
</tbody>
</table>
|                              | • on the 1st or 15th day of the month corresponding with the Bond payment dates, and  
  • when the Bond interest rate index is greater than the average Cap Strike Rate for a month.                                                                                                                                                                                                                                     |
|                              | Only disburse a provider payment to the Borrower if                                                                                                                                                                                                                                                                                     |
|                              | • there is no Mortgage Loan default, and  
  • you received all payments due under the Indenture and Bonds for that month.                                                                                                                                                                                                                                                     |
|                              | If the Borrower defaults under the Mortgage Loan or Reimbursement Agreement, you must                                                                                                                                                                                                                                                   |
|                              | • promptly notify Fannie Mae and any applicable Bond Trustee, and  
  • direct the Bond Trustee to suspend its payment to the Borrower.                                                                                                                                                                                                                                                                 |
| Timing                       | The Borrower must accept a bid for the initial Interest Rate Cap in writing from a Fannie Mae approved provider before you request a Commitment.                                                                                                                                                                                               |
| Purchase Price               | The Borrower must pay the entire purchase price for an Interest Rate Cap to the provider when the Interest Rate Cap Agreement is issued.                                                                                                                                                                                                     |
| Pledge to Fannie Mae         | The Borrower must pledge its interest in the Interest Rate Cap and any reserve to Fannie Mae using the documentation provided by Fannie Mae counsel.                                                                                                                                                                                                                                       |

### Section 1908  
#### Facility Fee

**Operating Procedures**

For Credit Enhancement Instruments, you must calculate the Facility Fee as follows:
### FACILITY FEE CALCULATION

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td><strong>CREDIT ENHANCEMENT FEE / GUARANTY FEE CALCULATION</strong></td>
</tr>
<tr>
<td>1</td>
<td>Applicable Credit Enhancement Fee, or Guaranty Fee</td>
<td>MULTIPLIED BY Credit Enhancement Mortgage Loan UPB</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MINUS PRF balance, excluding interest</td>
</tr>
<tr>
<td></td>
<td></td>
<td>EQUALS Credit Enhancement Fee / Guaranty Fee</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>SERVICING FEE CALCULATION</strong></td>
</tr>
<tr>
<td>2</td>
<td>Servicing Fee</td>
<td>MULTIPLIED BY Credit Enhancement Mortgage Loan UPB</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MINUS PRF balance, excluding interest</td>
</tr>
<tr>
<td></td>
<td></td>
<td>EQUALS Servicing Fee</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>PRF FEE CALCULATION</strong></td>
</tr>
<tr>
<td>3</td>
<td>For variable rate Bonds, PRF Fee Rate</td>
<td>MULTIPLIED BY PRF balance, excluding interest</td>
</tr>
<tr>
<td></td>
<td></td>
<td>EQUALS PRF Fee</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>BOND LIQUIDITY FEE CALCULATION</strong></td>
</tr>
<tr>
<td>4</td>
<td>For variable rate Bonds, Bond Liquidity Fee Rate</td>
<td>MULTIPLIED BY Bond UPB</td>
</tr>
<tr>
<td></td>
<td></td>
<td>EQUALS Bond Liquidity Fee</td>
</tr>
</tbody>
</table>

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FACILITY FEE CALCULATION

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>PLUS</td>
<td>Credit Enhancement Fee / Guaranty Fee PLUS Servicing Fee PLUS any PRF Fee PLUS any Bond Liquidity Fee EQUALS Facility Fee</td>
</tr>
</tbody>
</table>

Section 1909  
Taxable Tails and Supplemental Mortgage Loans

1909.01  Taxable Tails

☑ Requirements

<table>
<thead>
<tr>
<th>Terms</th>
<th>A Taxable Tail must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structure</td>
<td>Be fixed or variable rate debt structured as</td>
</tr>
<tr>
<td></td>
<td>• Bonds,</td>
</tr>
<tr>
<td></td>
<td>• a Cash Mortgage Loan, or</td>
</tr>
<tr>
<td></td>
<td>• an MBS Mortgage Loan.</td>
</tr>
<tr>
<td>Underwriting and</td>
<td>Be treated with the Credit Enhancement Mortgage Loan</td>
</tr>
<tr>
<td>Loss Sharing</td>
<td>• as a single combined Mortgage Loan, and</td>
</tr>
<tr>
<td></td>
<td>• with a blended weighted average Underwritten DSCR, LTV, interest rate, etc., based on</td>
</tr>
<tr>
<td></td>
<td>the combined UPB of the tax-exempt and taxable debt.</td>
</tr>
<tr>
<td>Cross Provisions</td>
<td>Be cross-collateralized and cross-defaulted with the Credit Enhancement Mortgage Loan.</td>
</tr>
<tr>
<td>MBS Mortgage Loan</td>
<td>Have Additional Disclosure.</td>
</tr>
<tr>
<td>Maturity and Prepayment</td>
<td>• Mature no earlier than the Credit Enhancement Mortgage Loan.</td>
</tr>
<tr>
<td></td>
<td>• Be fully repaid before the Credit Enhancement Mortgage Loan is prepaid.</td>
</tr>
</tbody>
</table>
A Taxable Tail usually fully amortizes over its loan term. This may require “hyper-amortization” where all principal payments are applied:

- first to the Taxable Tail until it fully amortizes, and
- then to the tax-exempt debt.

### 1909.02 Supplemental Mortgage Loans

**Requirements**

You must ensure any Supplemental Mortgage Loan:

- is taxable debt that is cross-collateralized and cross-defaulted with the Credit Enhancement Mortgage Loan Property;
- is originated after the Credit Enhancement Mortgage Loan;
- complies with the Bond documents; and
- is properly disclosed to Investors.

### Section 1910 Third-Party Subordinate Financing

**Requirements**

For third-party subordinate financing, you must comply with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704: Subordinate Financing.

### Section 1911 Moderate Rehabilitation Mortgage Loan with Side-by-Side Bond Financing

**Guidance**

Fannie Mae may purchase a Moderate Rehabilitation Mortgage Loan for an MAH Property when the Borrower separately obtains side-by-side Bond financing. Since Fannie Mae does not credit enhance the Bonds, you may use your own outside counsel.

**Requirements**

For a Moderate Rehabilitation Mortgage Loan with side-by-side Bond financing, you must ensure the Bonds:

- have a shorter term than the Mortgage Loan,
- are fixed rate,
- are tax-exempt,
- are 100% secured by cash collateral, and
- are not secured by the MAH Property.
Chapter 20  Forward Commitments

Section 2001  Generally

2001.01  Description

Requirements

You must Deliver a permanent Mortgage Loan that complies with the Forward Commitment Confirmation.

2001.02  Eligible Properties

Requirements

A Property undergoing new construction or substantial rehabilitation is eligible for a Forward Commitment. Property substitutions are not permitted.

Section 2002  Funded Forward Commitments

Guidance

You may contact the Fannie Mae Deal Team for funded Forward Commitment information.

Section 2003  Unfunded Forward Commitments

2003.01  Terms and Interest Rate Determination

2003.01A  Terms

Requirements

<table>
<thead>
<tr>
<th>Terms</th>
<th>Unfunded Forward Commitment Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forward Commitment Term</td>
<td>30-month maximum for construction and lease up, unless extended per Part III, Chapter 20: Forward Commitments, Section 2003.05C: Forward Commitment Extensions.</td>
</tr>
</tbody>
</table>
## Terms

<table>
<thead>
<tr>
<th><strong>Borrower Commitment</strong></th>
<th><strong>Unfunded Forward Commitment Requirements</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Must:</td>
</tr>
<tr>
<td></td>
<td>- have the same terms as the Forward Commitment Confirmation;</td>
</tr>
<tr>
<td></td>
<td>- comply with this Chapter; and</td>
</tr>
<tr>
<td></td>
<td>- comply with all Forward Commitment documents.</td>
</tr>
<tr>
<td><strong>Loan Type</strong></td>
<td><strong>Unfunded Forward Commitment Requirements</strong></td>
</tr>
<tr>
<td></td>
<td>Must be a fixed rate or variable rate:</td>
</tr>
<tr>
<td></td>
<td>- Mortgage Loan; or</td>
</tr>
<tr>
<td></td>
<td>- tax-exempt bond credit enhancement or</td>
</tr>
<tr>
<td></td>
<td>associated Taxable Tail.</td>
</tr>
<tr>
<td><strong>Expiration or Termination</strong></td>
<td><strong>Unfunded Forward Commitment Requirements</strong></td>
</tr>
<tr>
<td></td>
<td>You must not Deliver a Mortgage Loan as an immediate Delivery if the Forward Commitment expired, or terminated.</td>
</tr>
</tbody>
</table>

## 2003.01B Interest Rate Determination and Rate Lock

### Guidance

The interest rate for a permanent Mortgage Loan is determined:

- with a Rate Lock as of the Forward Commitment date; or
- for a Forward Commitment on a Credit Enhancement Mortgage Loan, at Bond pricing per Part IV, Chapter 8: Bond Transactions and Credit Enhancement Mortgage Loans, Section 801.04: Rate Lock.

### Operating Procedures

You must

- set the Guaranty Fee and Servicing Fee at Rate Lock, and
- ensure they are paid only on the permanent Mortgage Loan.

No Guaranty Fee or Servicing Fee will be charged during the construction period.

## 2003.02 Good Faith Deposit and Fees
2003.02A Good Faith Deposit

☑ Requirements

You must collect the Good Faith Deposit from the Borrower per

- Part IV, Chapter 2: Rate Lock and Committing, Section 203.01: Borrower Deposit, and
- Part IV, Chapter 2: Rate Lock and Committing, Section 203.02: Minimum Good Faith Deposit.

2003.02B Fees

☑ Requirements

The following fees apply to Forward Commitments.

<table>
<thead>
<tr>
<th>Fees</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standby Fee</td>
<td>For the Forward Commitment term, the fee is:</td>
</tr>
<tr>
<td></td>
<td>• per the Forward Commitment; and</td>
</tr>
<tr>
<td></td>
<td>• due when the Forward Commitment is confirmed.</td>
</tr>
<tr>
<td>Standby Extension Fee</td>
<td>For each extension contemplated in the Forward Commitment, the fee is:</td>
</tr>
<tr>
<td></td>
<td>• per the Forward Commitment; and</td>
</tr>
<tr>
<td></td>
<td>• due when Fannie Mae processes the extension.</td>
</tr>
<tr>
<td></td>
<td>Any additional extension terms and fees are at Fannie Mae's discretion.</td>
</tr>
<tr>
<td>Rate Lock Extension Fee</td>
<td>For a Forward Commitment not involving a Credit Enhancement Mortgage Loan,</td>
</tr>
<tr>
<td></td>
<td>per Part IV, Chapter 2: Rate Lock and Committing, Section 204.03B: Rate</td>
</tr>
<tr>
<td></td>
<td>Lock Extensions and the Pricing Memo.</td>
</tr>
<tr>
<td>Fees</td>
<td>Requirements</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Non-Delivery Fee</td>
<td>If the conversion conditions are not met or the permanent Mortgage Loan is not Delivered per the Forward Commitment, the fee is:</td>
</tr>
<tr>
<td></td>
<td>• for:</td>
</tr>
<tr>
<td></td>
<td>- a Forward Commitment involving a Credit Enhancement Mortgage Loan, per the Credit Enhancement Commitment Letter; or</td>
</tr>
<tr>
<td></td>
<td>- all other Forward Commitments, per Form 4210; and</td>
</tr>
<tr>
<td></td>
<td>• drafted from your account on the earlier of the Forward Commitments</td>
</tr>
<tr>
<td></td>
<td>- expiration date, or</td>
</tr>
<tr>
<td></td>
<td>- termination by Fannie Mae.</td>
</tr>
<tr>
<td>Shortfall Fee</td>
<td>For a Forward Commitment not involving a Credit Enhancement Mortgage Loan, if the permanent Mortgage Loan closes, but its original principal amount is less than 90% of the maximum Mortgage Loan amount, the fee is:</td>
</tr>
<tr>
<td></td>
<td>• per Form 4210; and</td>
</tr>
<tr>
<td></td>
<td>• drafted from your account by the permanent Mortgage Loan closing.</td>
</tr>
<tr>
<td>Origination Fee; Construction Loan</td>
<td>You must:</td>
</tr>
<tr>
<td>Administration Fee</td>
<td>• charge the Borrower:</td>
</tr>
<tr>
<td></td>
<td>- an Origination Fee per the Pricing Memo; and</td>
</tr>
<tr>
<td></td>
<td>- a Construction Loan Administration Fee covering the actual loan administration costs, but no less than $500 per month; and</td>
</tr>
<tr>
<td></td>
<td>• not pay these fees to Fannie Mae.</td>
</tr>
</tbody>
</table>
**2003.03A Generally**

**Requirements**

You must:

- Underwrite, originate, and service a Forward Commitment Mortgage Loan as if it were an immediate funding Mortgage Loan.
- Agree to issue the Borrower Commitment.
- Determine the construction lender has
  - completed its underwriting, and
  - agreed to issue a construction financing commitment.
- Confirm the Investor will
  - issue its commitment to purchase the MBS, and
  - meet the Forward Commitment conditions, including timing.

**2003.03B Construction and Feasibility Review**

**Guidance**

You should:

- Assess the:
  - construction lender’s capacity to fund and monitor the construction loan; and
  - ability of the development team and general contractor to
    - complete the project, and
    - post an acceptable bond or letter of credit for the construction lender.
- Review and approve the:
  - project budget, including construction contingencies, and align any deferred development fee to market rates;
  - LIHTC equity funding schedule;
  - pro forma underwriting;
  - feasibility of repaying the construction loan at conversion, including:
    - evaluating several stress-test scenarios such as a decline in rents,
an increase in operating expenses, or other circumstances;

— having the LIHTC investor or construction lender retain an appropriate portion of the development fee until specified construction and lease up milestones are met;

— the sufficiency of the LIHTC investor’s equity funding; and

— the availability of other capital sources such as grants or subordinate debt;

— absorption schedule, including a capture band analysis of submarket income;
— Borrower organizational documents;
— Affordable Regulatory Agreements; and
— Subordinate Loan documents.

Ensure the Forward Commitment term is sufficient to allow for:

— the Property to be completed and leased;
— you to submit the conversion package;
— Fannie Mae to approve the conversion; and
— you to Deliver the permanent Mortgage Loan.

2003.03C Third-Party Reports

☑ Requirements

If you and the construction lender use a single set of third-party reports for underwriting, the reports

— must be addressed to both lenders, but
— can be contracted and paid for by either lender.

Є Operating Procedures

You must obtain the following reports.
<table>
<thead>
<tr>
<th>Report</th>
<th>Timing</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Condition Assessment</td>
<td>Before Forward Commitment</td>
<td>Complete a PCA for all substantial rehabilitation properties.</td>
</tr>
<tr>
<td></td>
<td>Before conversion</td>
<td>Obtain a PCA and complete the Replacement Reserve Schedule per Part II, Chapter 4: Inspections and Reserves.</td>
</tr>
<tr>
<td>Environmental Site Assessment</td>
<td>Before construction</td>
<td>Obtain a Phase I ESA.</td>
</tr>
<tr>
<td></td>
<td>Before conversion</td>
<td>• Obtain a new Phase I ESA.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Obtain a Phase II ESA if recommended by the new Phase I ESA.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ensure any required remediation is complete before you Deliver the permanent Mortgage Loan.</td>
</tr>
<tr>
<td>Report</td>
<td>Timing</td>
<td>You must...</td>
</tr>
<tr>
<td>--------------------</td>
<td>----------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Architectural</td>
<td>Before Forward Commitment</td>
<td>From an independent consulting architect, obtain an architectural review assessing the Property's</td>
</tr>
<tr>
<td>Review</td>
<td></td>
<td>• preliminary plans and specifications,&lt;br&gt;• compliance with local building codes,&lt;br&gt;• site characteristics,&lt;br&gt;• choice of building materials and finishes,&lt;br&gt;• asset quality,&lt;br&gt;• marketability, and&lt;br&gt;• overall design appropriateness for the intended use.</td>
</tr>
<tr>
<td></td>
<td>During construction</td>
<td>Use a consulting architect for in-field inspections.</td>
</tr>
<tr>
<td></td>
<td>Final inspection</td>
<td>Require the consulting architect to conduct a final inspection confirming the Property:&lt;br&gt;• was built according to the approved plans and specifications; and&lt;br&gt;• meets all applicable building codes and zoning requirements.</td>
</tr>
<tr>
<td>Appraisal</td>
<td>Before Commitment</td>
<td>Obtain an Appraisal per Part II, Chapter 2: Valuation and Income.</td>
</tr>
<tr>
<td></td>
<td>Before conversion</td>
<td>Obtain a new or updated Appraisal if&lt;br&gt;• you request an increase in the permanent Mortgage Loan amount above the Forward Commitment terms, or&lt;br&gt;• Fannie Mae requires it.</td>
</tr>
</tbody>
</table>
You may use the same consulting architect as the construction lender if the consulting architect:

- is independent and not an employee of the construction lender;
- is retained directly by you and engaged separately by the construction lender; and
- acknowledges they may be required to make recommendations that do not align with those of the construction lender.

### 2003.04 Commitment

<table>
<thead>
<tr>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>All:</td>
</tr>
<tr>
<td>- Forward Commitments must comply with Part IV, Chapter 2: Rate Lock and Committing.</td>
</tr>
<tr>
<td>- Borrower Commitments must comply with Part IV, Chapter 2: Rate Lock and Committing, Section 201.01: Borrower Commitment.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>You must</td>
</tr>
<tr>
<td>- complete the steps in the following table, and</td>
</tr>
<tr>
<td>- submit the Forward Commitment in C&amp;D per the Committing &amp; Delivery of Unfunded Forwards Job Aid.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Step</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For All Mortgage Loans</td>
</tr>
<tr>
<td>Step</td>
<td>You must...</td>
</tr>
<tr>
<td>------</td>
<td>-------------</td>
</tr>
</tbody>
</table>
| 1    | Obtain an executed Borrower Commitment including:  
- Borrower covenants to  
  - close the permanent Mortgage Loan per the Forward Commitment terms, and  
  - pay all required fees and deposits; and  
- all required Loan Documents and third-party documents in final form, including  
  - Affordable Regulatory Agreements (or other affordable housing restrictions), and  
  - Subordinate Loan documents and subordination agreements. |
| 2    | Pay all fees or submit acceptable collateral to Fannie Mae. |
| 3    | Ensure the Borrower  
- accepted the construction loan commitment, and  
- complied with its conditions. |
| 4    | Obtain evidence that state and local authorities issued the Borrower all  
- land disturbance,  
- site,  
- grading,  
- foundation, and  
- building permits, or their equivalents. |
<p>|      | <strong>Additionally, for all non-Credit Enhancement Mortgage Loans</strong> |
| 5    | Obtain a Rate Lock. |
| 6    | Obtain the signed Delivery Assurance Agreement (Unfunded Forwards) (Form 6488). |
| 7    | Ensure any Delivery Assurance Security Instrument covers any permitted Borrower Commitment extension terms. |
| 8    | Record any Delivery Assurance Security Instrument on the Property before the construction loan closing. |
|      | <strong>Additionally, for all Credit Enhancement Mortgage Loans</strong> |</p>
<table>
<thead>
<tr>
<th>Step</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>Ensure Bond pricing complies with Part IV, Chapter 8: Bond Transactions and Credit Enhancement Mortgage Loans, Section 801.04: Rate Lock.</td>
</tr>
<tr>
<td>10</td>
<td>Obtain the Credit Enhancement Commitment Letter.</td>
</tr>
</tbody>
</table>

After you complete these steps, Fannie Mae will confirm the Forward Commitment in C&D.

Within 30 days after the Forward Commitment is confirmed, you must Deliver the documents listed in:

- steps 4, 6, 8, and 10; and
- the Pre-Construction Monitoring Package (Form 4543).

### 2003.05 Construction Period

#### 2003.05A Monitoring

**☑ Requirements**

You must monitor the construction process to ensure that when the permanent Mortgage Loan is converted it will comply with the

- Forward Commitment, and
- permanent Mortgage Loan Commitment.

**➡ Guidance**

During the construction or substantial rehabilitation period:
<table>
<thead>
<tr>
<th>Responsible Party</th>
<th>Activities</th>
</tr>
</thead>
</table>
| You               | • Evaluate inspections and change orders.  
|                   | • Reject any change orders that would:  
|                   |   - change the Property's main design or asset quality features;  
|                   |   - make material changes; or  
|                   |   - result in combined hard and contingency costs greater than the construction loan budget (i.e., the construction loan must remain in balance).  
|                   | • Review the consulting architects progress reports and provide them to Fannie Mae upon request.  
|                   | • Monitor the construction loan and lease-up status. |
| Consulting Architect | • Regularly perform on-site construction progress inspections.  
|                    | • Ensure the time between inspections is not more than 2 months.  
|                    | • Issue a progress report after each - inspection, and  
|                    |   - whenever the construction lender approves a disbursement. |

You and the construction lender may both use the same consulting architect for the
- preliminary and final plans,  
- specification reviews, and  
- construction period inspections.

**2003.05B  Reporting**

**✓ Requirements**

You must provide quarterly reports to Fannie Mae via DUS Gateway using Construction Period Monitoring (Form 4211).

**2003.05C  Forward Commitment Extensions**

**✓ Requirements**

You must inform the Fannie Mae Deal Team and the Forwards Team if conversion may be delayed.
Guidance

If the Forward Commitment permits, you may approve a maximum delegated Forward Commitment extension up to:

- for MBS for Bonds, two 6-month periods; or
- for any other Mortgage Loan, one 6-month period.

Operating Procedures

The delegated Forward Commitment extension will become effective when all of the following occur:

- you submit the following extension documentation to Fannie Mae at least 30 days before the Forward Commitment expiration:
  - the Borrower's extension request;
  - a project status report, including reasons for the delay;
  - verification the Forward Commitment is likely to convert to a permanent Mortgage Loan within the extension period;
  - anticipated shortfall analysis of the Mortgage Loan amount at conversion and the source of funds for filling the shortfall;
  - confirmation there has been no material adverse change in the Borrower or Property; and
  - confirmation the Borrower's construction loan will be extended by the same extension period as the Forward Commitment term.

- Fannie Mae processes the extension request; and

- at least 1 business day before the Forward Commitment expiration:
  - you enter all fees into C&D;
  - Fannie Mae receives the fees;
  - you submit a C&D request to adjust the Forward Commitment expiration date; and
  - you are notified the adjustment has been completed.

Requirements

Fannie Mae must approve all Forward Commitment extensions beyond the maximum delegated term. To request Fannie Mae approval:

- you must submit
● all extension documentation required for a delegated extension, and
● any requested revised stabilization analysis; and

the Borrower must pay any required fees.

2003.06 Construction Completion

☑️ Requirements

You must ensure that all Improvements on the Property are completed, including

■ amenities,
■ landscaping,
■ signage,
■ parking, etc.

If sufficient funds will be reserved in a Completion/Repair Escrow, minor punch list and weather-sensitive items may be incomplete.

➡️ Guidance

Use the following table for confirming construction completion and occupancy.

<table>
<thead>
<tr>
<th>Responsible Party</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consulting Architect</td>
<td>• Conduct a final Property inspection.</td>
</tr>
<tr>
<td></td>
<td>• Certify the Property was completed per this Section.</td>
</tr>
<tr>
<td>Responsible Party</td>
<td>Activities</td>
</tr>
<tr>
<td>-------------------</td>
<td>------------</td>
</tr>
<tr>
<td>You</td>
<td>Ensure all Improvements:</td>
</tr>
<tr>
<td></td>
<td>• were completed in a good and workmanlike manner per the approved plans and specifications;</td>
</tr>
<tr>
<td></td>
<td>• are Lien-free; and</td>
</tr>
<tr>
<td></td>
<td>• for all governmental authorities with jurisdiction over the Property, comply with all</td>
</tr>
<tr>
<td></td>
<td>- applicable laws,</td>
</tr>
<tr>
<td></td>
<td>- building codes,</td>
</tr>
<tr>
<td></td>
<td>- zoning requirements,</td>
</tr>
<tr>
<td></td>
<td>- subdivision requirements,</td>
</tr>
<tr>
<td></td>
<td>- fire and safety laws,</td>
</tr>
<tr>
<td></td>
<td>- ADA requirements, and</td>
</tr>
<tr>
<td></td>
<td>- design and construction requirements per the Fair Housing Act.</td>
</tr>
<tr>
<td></td>
<td>Obtain:</td>
</tr>
<tr>
<td></td>
<td>• certificates and reports showing the Borrower completed all Improvements per the Guide from the</td>
</tr>
<tr>
<td></td>
<td>- architect,</td>
</tr>
<tr>
<td></td>
<td>- consulting architect, and</td>
</tr>
<tr>
<td></td>
<td>- other project consultants;</td>
</tr>
<tr>
<td></td>
<td>• evidence of all public utilities for the Property;</td>
</tr>
<tr>
<td></td>
<td>• copies of:</td>
</tr>
<tr>
<td></td>
<td>- all Property operating permits and licenses; and</td>
</tr>
<tr>
<td></td>
<td>- either:</td>
</tr>
<tr>
<td></td>
<td>• each unconditional certificate of occupancy (or the local equivalent) for all required portions of the Property; or</td>
</tr>
<tr>
<td></td>
<td>• evidence the Property passed all inspections and received all approvals before occupancy, if local law does not require certificates of occupancy; and</td>
</tr>
<tr>
<td></td>
<td>• a Certification of Substantial Completion (AIA Document G704) stating the Improvements were completed per the final plans and specifications, and executed by the appropriate parties, including the</td>
</tr>
<tr>
<td></td>
<td>- architect,</td>
</tr>
<tr>
<td></td>
<td>- general contractor, and</td>
</tr>
<tr>
<td></td>
<td>- Borrower.</td>
</tr>
</tbody>
</table>
Before converting, you must complete the permanent Mortgage Loan final underwriting.

<table>
<thead>
<tr>
<th>Topic</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSCR and LTV</td>
<td>Ensure the Property complies with the committed DSCR and LTV.</td>
</tr>
<tr>
<td>Eligibility</td>
<td>Ensure:</td>
</tr>
<tr>
<td></td>
<td>• The Borrower:</td>
</tr>
<tr>
<td></td>
<td>- does not change;</td>
</tr>
<tr>
<td></td>
<td>- remains eligible; and</td>
</tr>
<tr>
<td></td>
<td>- still owns the Property.</td>
</tr>
<tr>
<td></td>
<td>• The Key Principals:</td>
</tr>
<tr>
<td></td>
<td>- do not change; and</td>
</tr>
<tr>
<td></td>
<td>- have not reduced their direct or indirect ownership interest and control over the Borrower or the Property.</td>
</tr>
<tr>
<td></td>
<td>• There is no material adverse change in the condition, financial or otherwise, of</td>
</tr>
<tr>
<td></td>
<td>- the Borrower,</td>
</tr>
<tr>
<td></td>
<td>- any Guarantor,</td>
</tr>
<tr>
<td></td>
<td>- any Key Principal, or</td>
</tr>
<tr>
<td></td>
<td>- the Property.</td>
</tr>
<tr>
<td>Construction Loan Status</td>
<td>Ensure the Borrower</td>
</tr>
<tr>
<td></td>
<td>• is current on the construction loan payments and not in default, and</td>
</tr>
<tr>
<td></td>
<td>• has not been delinquent during the previous 12 months.</td>
</tr>
<tr>
<td>Certification of Rent Roll</td>
<td>On the permanent Mortgage Loan Origination Date, certify with the Borrower there has been no material adverse change in the Certification of Project Rent Roll.</td>
</tr>
</tbody>
</table>
### Equity Contributions

As of the permanent Mortgage Loan Delivery, obtain a Borrower certificate, or other Fannie Mae-accepted evidence, that all funds reflected on the Borrower’s sources and uses of funds statement were:

- received, including all equity contributions; and
- properly invested in the Property.

### LIHTC Reservation or Allocation

If the Property is eligible for LIHTCs, verify the Borrower’s IRS Form 8609 issued by the state housing finance agency reflects the required LIHTC amount.

---

**Guidance**

Fannie Mae may defer the requirement to obtain IRS Form 8609 before conversion based on factors such as whether:

- the Property's financials exceed the pro-forma underwriting per the Forward Commitment;
- all other conversion criteria were met;
- the Borrower certified the Property complies with the LIHTC requirements;
- you and the tax accountant approved the cost certification;
- the Borrower submitted the cost certification to the state, with no anticipated significant adjustments;
- the LIHTC investor contributed at least 90% of their equity, with the remaining 10% withheld for any minor adjustments to the
  - Property tax depreciable basis,
  - adjusters, or
  - developer fee;
- the sources and uses of funds are in balance, and all required funds were received to complete and lease-up the Property;
- you have documentation confirming the IRS Form 8609 application and the state’s acknowledgement of receipt;
- you expect to receive the IRS Form 8609 timely post-conversion;
- you will monitor receipt of IRS Form 8609 as a post-closing matter and...
deliver a copy to Fannie Mae; and

- the Borrower has experience complying with IRS Form 8609 in the specific state.

2003.07B  Stabilized NCF

☑ Requirements

You must:

- Confirm the Property will qualify for the full Commitment by
  - evaluating its performance, and
  - assessing whether it meets the projected
    - income,
    - expenses, and
    - NCF.

- Use the Forward Loan Conversion Analysis (Form 4212) to
  - annualize the certified project rent rolls,
  - compare pro forma and actual operating expenses, and
  - calculate the Property's stabilized NCF per
    - this Chapter, and
    - Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis or the applicable Part III chapter based on the specific product.

- Submit the Forward Conversion Analysis Summary (Form 4618) that verifies your Chief Underwriter's involvement and agreement with the analysis.

The permanent Mortgage Loan Delivery Package documentation must include:

- the percentage of the Property's occupied units categorized by
  - bedroom configuration,
  - square footage, and
  - rent type (low income or market rate) delineating any Section 8 or other subsidized rental program tenants;
- the Property's actual Effective Gross Income for each of the previous 3 months, including only rental income and permitted other income from the units less any
  - rent concessions,
  - reductions,
  - inducements, or
  - forbearance; and

- rental income by rent type (low income or market rate).

You must use the following table to calculate stabilized NCF.

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 1    |          | For each of the most recent trailing 3 months before conversion:  
  - determine the Gross Potential Rent from an executed Certification of Project Rent Roll; and  
  - confirm that at least 90% of the units were physically occupied by a Qualified Tenant with an acceptable Lease. |
|      | EQUALS   | GROSS POTENTIAL RENT |
| 2    | MINUS    | • Economic vacancy using the higher of  
  - original Forward Commitment underwriting, or  
  - actual annualized trailing 3-month operating statements.¹  
  • Include:  
    - concessions if they  
      - are prevalent in the market, or  
      - were used to achieve initial stabilization and will remain; and  
    - a re-leasing cost allowance if the Property has short term leases. |
### STABILIZED NCF

<table>
<thead>
<tr>
<th></th>
<th>PLUS/MINUS</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>PLUS</td>
<td>For an MAH Property, include annualized other income per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703.01: Underwritten NCF.</td>
</tr>
<tr>
<td>4</td>
<td>PLUS</td>
<td>Commercial income per Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF).</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>EQUALS</strong></td>
</tr>
<tr>
<td>5</td>
<td>MINUS</td>
<td>Line-by-line operating expenses using the higher of:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- actual annualized trailing 3-month operating statements; or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- original Forward Commitment underwriting, adjusted by substituting the following actual expenses, if known:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- real estate taxes;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- property liability and other insurance; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- management fees.</td>
</tr>
<tr>
<td>6</td>
<td>MINUS</td>
<td>Replacement Reserve expense per Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF).</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>EQUALS</strong></td>
</tr>
</tbody>
</table>

1. Assess if there was any decline in NRI per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.

---

### 2003.07C Final Permanent Mortgage Loan Amount

**Requirements**

You must ensure the permanent Mortgage Loan amount is less than or equal to the Forward Commitment.

**Operating Procedures**
<table>
<thead>
<tr>
<th>Steps</th>
<th>Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>You must determine the permanent Mortgage Loan amount using the Forward Loan Conversion Analysis (Form 4212).</td>
</tr>
<tr>
<td>2</td>
<td>If the Property's actual stabilized NCF before permanent Mortgage Loan Delivery is less than the original Forward Commitment underwriting, reduce the permanent Mortgage Loan amount to comply with the Forward Commitment DSCR and LTV.</td>
</tr>
<tr>
<td>3</td>
<td>If the permanent Mortgage Loan amount in Step 2 is less than the Forward Commitment Confirmation Mortgage Loan amount, verify the Borrower has secured a source of funds, whether debt or equity, to cover the difference.</td>
</tr>
<tr>
<td>4</td>
<td>Ensure any additional debt the Borrower incurs to cover the difference in Step 3, is only secured by a Lien on the Property if • it is an MAH Property, and • the subordinate debt complies with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704: Subordinate Financing.</td>
</tr>
<tr>
<td>5</td>
<td>If the permanent Mortgage Loan amount in Step 2 results in a loan curtailment, • the Borrower must close the permanent Mortgage Loan at the reduced amount, and • you must Deliver the permanent Mortgage Loan at the reduced amount.</td>
</tr>
<tr>
<td>Steps</td>
<td>Actions</td>
</tr>
<tr>
<td>-------</td>
<td>---------</td>
</tr>
</tbody>
</table>
| 6     | If the Property qualifies for additional financing beyond the Forward Commitment Confirmation Mortgage Loan amount, submit via DUS Gateway:  
   • a request for additional financing;  
   • your conversion documentation; and  
   • a comparative analysis showing the stabilized NCF is greater than the original Forward Commitment underwriting.  
A new pre-conversion Appraisal is not required if the pre-construction Appraised Value and permanent Mortgage Loan amount comply with the Forward Commitment maximum LTV. |
| 7     | Any increase in the permanent Mortgage Loan amount approved by Fannie Mae will:  
   • be limited to the Maximum Loan Amount Increase percentage per the Forward Commitment;  
   • be made on the currently available terms and conditions; and  
   • not be approved simply because construction costs, cost overruns, or change orders were higher than expected. |

**2003.07D** Third-Party Reports

- **Requirements**

You must obtain third-party reports per Part III, Chapter 20: Forward Commitments, Section 2003.03C: Third-Party Reports.

**2003.08** Conversion

**2003.08A** Eligibility

- **Requirements**

To convert to the permanent Mortgage Loan, you must confirm:

- construction is complete;  
- the Property achieved the
- minimum occupancy,
- income, and
- debt service coverage;

- the eligibility criteria in Part III, Chapter 20: Forward Commitments, Section 2003.07A: Generally have been met; and
- the permanent Mortgage Loan is Delivered on Fannie Mae Loan Documents.

### 2003.08B Timeline

<table>
<thead>
<tr>
<th>Operating Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Timing</strong></td>
</tr>
</tbody>
</table>
| 30 days before the Borrower's closing | • Contact the Fannie Mae Deal Team and Forwards Team, to provide the  
- project development status, and  
- anticipated conversion and Delivery date.  

  • Submit via DUS Gateway:  
    - Preliminary Notice of Conversion:  
      - for Credit Enhancement Mortgage Loans, using the form attached in the Credit Enhancement Commitment Letter; and  
      - for all other Mortgage Loans, using Form 4616;  

    - Forward Loan Conversion Analysis (Form 4212);  

    - Forward Conversion Analysis Summary (Form 4618); and  

  - compliance evidence required by Fannie Mae conditions.  

  • Receive a conversion approval letter from the Forwards Team after all Fannie Mae imposed conditions are met. |
<table>
<thead>
<tr>
<th>Timing</th>
<th>You must...</th>
</tr>
</thead>
</table>
| At Conversion          | • Submit the permanent Mortgage Loan Commitment in C&D per the Committing & Delivery of Unfunded Forwards Job Aid.  
                        | • Document the permanent Mortgage Loan using Fannie Mae Loan Documents attached to the Borrower Commitment.  
                        | • For Credit Enhancement Mortgage Loans, submit via DUS Gateway the final conversion notice using the form attached in the Credit Enhancement Commitment Letter. |
| By the Delivery Deadline| • Deliver the permanent Mortgage Loan Delivery Package and submit the permanent Mortgage Loan data per  
                        |   - Part IV, Chapter 4: Delivery, Section 401: Delivery Deadline, and  
                        |   - Part IV, Chapter 4: Delivery, Section 402: Submission.  
                        | • For a Credit Enhancement Instrument, also submit applicable data on the Bond, Loan, Borrower, and Property pages in C&D within 3 Business Days after the Mortgage Loan closing. |

**2003.09 MBS Issuance**

**Operating Procedures**

The MBS will be issued per your delivery instructions after you Deliver the permanent Mortgage Loan.

**2003.10 Forward Commitment Termination**

**Guidance**

Fannie Mae may terminate the Forward Commitment if:

- You fail to Deliver a permanent Mortgage Loan per the Forward Commitment Confirmation terms and conditions.
- The Borrower does not begin Property construction or substantial rehabilitation within 180 days after you accept the Forward Commitment.
- A construction loan default occurs and is not cured within 90 days.
A substantial construction defect occurs that may threaten tenant life and safety unless:

- the Borrower repairs the defect within 90 days;
- the repairs satisfy both you and your consulting architect; and
- after paying all repair costs, the available remaining funds are sufficient to pay for all
  - work performed,
  - materials used or ordered, and
  - other required unpaid project costs per the contract.

☑ Requirements

If Fannie Mae terminates the Forward Commitment, all applicable fees must be paid per the Forward Commitment terms.

If the Borrower terminates the Forward Commitment, you must:

- submit a request to collapse the transaction to the Fannie Mae Deal Team and the Forwards Team at least 30 days before the Forward Commitment expiration;
- for Bond transactions, coordinate with Fannie Mae’s counsel; and
- contact Multifamily Acquisitions to withdraw the transaction in C&D.
Chapter 21  Condominium Properties

Section 2101  Eligible Mortgage Loans

Requirements

For any Condominium Property, you must:

- evaluate the Condominium Documents for compliance with the Condominium Document Review Checklist (Form 6498);

- determine if it is a:
  - Residential Condominium where the Borrower owns:
    - 100% of the units (i.e., a Wholly-Owned Condominium); or
    - less than 100% but at least 80% of the units (i.e., a Fractured Condominium); or
  - Commercial Condominium where the Borrower owns 100% of the residential units but does not own any other unit;

- ensure each Condominium Property unit:
  - is a separate tax parcel; and
  - has a separate tax bill;

- confirm:
  - the entire Property is subject to the Condominium regime;
  - all assessments and payments due per the Condominium Documents are current;
  - future assessments and payments from the Borrower are subordinate to the Mortgage Loan;
  - the Borrower is:
    - complying with all Condominium Documents; and
    - not involved in any Condominium Property disputes that may result in material litigation, or
      - materially adversely impact the Property; and

- retain Form 6498 in your Servicing File.

Section 2102  Control
<table>
<thead>
<tr>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Control Requirements</strong></td>
</tr>
<tr>
<td><strong>For a...</strong></td>
</tr>
<tr>
<td>Wholly-Owned Condominium</td>
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<td></td>
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</tbody>
</table>
### Control Requirements

<table>
<thead>
<tr>
<th>For a...</th>
<th>To be eligible for Delivery, you must ensure the Borrower has...</th>
</tr>
</thead>
</table>
| Fractured Condominium or Commercial Condominium | Material control (including the requisite votes in any Person directly or indirectly governing the Condominium), either individually or with its mortgagee, to:  
  • prevent:  
    - Condominium termination; and  
    - any Material Amendment to the Condominium Documents; and  
  • require, either directly or per the Condominium Documents:  
    - Condominium repair and restoration, including common elements, for any casualty or condemnation damage equal to 80% or less of either the  
      • common elements, or  
      • Borrower-owned Condominium units; and  
    - for any casualty or condemnation neither repairable nor restorable, timely distribution of insurance or condemnation proceeds to Condominium unit owners. |

### Guidance

#### Condominium Document Review

<table>
<thead>
<tr>
<th>Topic</th>
<th>You should review the Condominium Documents to evaluate...</th>
</tr>
</thead>
</table>
| Governing Body | Membership  
  • composition,  
  • appointment, and  
  • removal. |
Condominium Document Review

<table>
<thead>
<tr>
<th>Topic</th>
<th>You should review the Condominium Documents to evaluate...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voting</td>
<td>Thresholds for</td>
</tr>
<tr>
<td></td>
<td>• making decisions,</td>
</tr>
<tr>
<td></td>
<td>• amending documents,</td>
</tr>
<tr>
<td></td>
<td>• terminating the condominium structure.</td>
</tr>
<tr>
<td>Association</td>
<td>• Responsibilities for</td>
</tr>
<tr>
<td></td>
<td>• collecting fees,</td>
</tr>
<tr>
<td></td>
<td>• managing maintenance tasks,</td>
</tr>
<tr>
<td></td>
<td>• obtaining adequate insurance, and</td>
</tr>
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<td></td>
<td>• mediating disputes.</td>
</tr>
<tr>
<td></td>
<td>• Requirements and restrictions for</td>
</tr>
<tr>
<td></td>
<td>• operations,</td>
</tr>
<tr>
<td></td>
<td>• physical appearance,</td>
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<tr>
<td></td>
<td>• common area alterations,</td>
</tr>
<tr>
<td></td>
<td>• unit alterations, and</td>
</tr>
<tr>
<td></td>
<td>• rebuilding.</td>
</tr>
<tr>
<td>Assessment Fees</td>
<td>Provisions for</td>
</tr>
<tr>
<td></td>
<td>• establishment,</td>
</tr>
<tr>
<td></td>
<td>• escalation, and</td>
</tr>
<tr>
<td></td>
<td>• special assessments.</td>
</tr>
<tr>
<td>Common Areas</td>
<td>Use of</td>
</tr>
<tr>
<td></td>
<td>• shared amenities,</td>
</tr>
<tr>
<td></td>
<td>• ingress/egress, and</td>
</tr>
<tr>
<td></td>
<td>• parking.</td>
</tr>
<tr>
<td>Financials</td>
<td>Reasonableness of</td>
</tr>
<tr>
<td></td>
<td>• annual budget,</td>
</tr>
<tr>
<td></td>
<td>• 3 years Condominium income/expense statements, and</td>
</tr>
<tr>
<td></td>
<td>• reserves.</td>
</tr>
<tr>
<td>Topic</td>
<td>You should review the Condominium Documents to evaluate...</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>----------------------------------------------------------</td>
</tr>
<tr>
<td>Insurance Proceeds and Condemnation Awards</td>
<td>How funds are</td>
</tr>
<tr>
<td></td>
<td>• held,</td>
</tr>
<tr>
<td></td>
<td>• applied, and</td>
</tr>
<tr>
<td></td>
<td>• disbursed.</td>
</tr>
<tr>
<td>Covenant Enforcement</td>
<td>Ability to, and history of,</td>
</tr>
<tr>
<td></td>
<td>• levying fines,</td>
</tr>
<tr>
<td></td>
<td>• collecting interest, and/or</td>
</tr>
<tr>
<td></td>
<td>• placing and foreclosing liens.</td>
</tr>
<tr>
<td>Insurance</td>
<td>Coverage for</td>
</tr>
<tr>
<td></td>
<td>• property (e.g., accidents, fire, equipment failure,</td>
</tr>
<tr>
<td></td>
<td>• flood, wind, etc.),</td>
</tr>
<tr>
<td></td>
<td>• liability (personal injury), and</td>
</tr>
<tr>
<td></td>
<td>• directors and officers (e.g., theft, fraud, etc.).</td>
</tr>
</tbody>
</table>

**Section 2103**  
**Loan Documents**

- **Requirements**

<table>
<thead>
<tr>
<th>Loan Documents</th>
</tr>
</thead>
<tbody>
<tr>
<td>For a...</td>
</tr>
<tr>
<td>Wholly-Owned Condominium</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
### Loan Documents

<table>
<thead>
<tr>
<th>For a...</th>
<th>You must ensure execution of...</th>
</tr>
</thead>
</table>
| Fractured Condominium or Commercial Condominium |  - Modifications to Multifamily Loan and Security Agreement (Fractured/Commercial Condominium Provisions) ([Form 6258](#));  
  - Estoppel Certificate attached to [Form 6258](#), executed by the condominium association;  
  - Modifications to Security Instrument (Condominium Subordination) ([Form 6304](#)); and  
  - Guaranty of Non-Recourse Obligations ([Form 6015](#)). |
Chapter 22  Sponsor-Dedicated Workforce (SDW) Housing Properties

Section 2201  Description

☑ Requirements

An SDW Housing Property is a Property where:

- either
  - all rent restrictions are newly imposed by the Borrower, or
  - new rent restrictions are being added to existing rent restrictions; and

- the aggregate rent restrictions:
  - meet or exceed 20% @ 80%: at least 20% of all units have rent restrictions in place making them affordable to households earning up to the following as adjusted for family size:
    - 80% of AMI; or
    - 100% of AMI in an FHFA-designated “cost-burdened” market; or
    - 120% of AMI in an FHFA-designated “very cost-burdened” market;
  - are in place at the Property by the Mortgage Loan Origination Date; and
  - remain in place during the entire Mortgage Loan term.

An SDW Housing Property is ineligible if:

- 3 or more years of LIHTC restrictions remain; and
- the Borrower intends to enter into the Qualified Contract Process (per Internal Revenue Code Section 42) within 3 years after the Mortgage Loan Origination Date.

 Guidance

- FHFA annually designates the “cost-burdened” and “very cost-burdened” markets.
- As designated by FHFA, the income threshold for affordability is:
  - 100% of AMI or below for “cost-burdened” markets; and
  - 120% of AMI or below for “very cost-burdened” markets.
This market designation is available in the:

- Very Cost-Burdened and Cost-Burdened Renter Multifamily Markets; and
- “Sponsor-Dedicated Workforce (SDW) Housing” section of the Affordable Housing Data Guidance Job Aid.

**Section 2202 Compliance**

**Requirements**

- You must:
  - ensure the Borrower’s execution of the:
    - Modifications to Multifamily Loan and Security Agreement (Sponsor-Dedicated Workforce Housing) (Form 6271.SDW); and
    - Modifications to Security Instrument (Sponsor-Dedicated Workforce Housing) (Form 6325);
  - require the Property’s compliance within 12 months after the Mortgage Loan Origination Date; and
  - ensure the SDW units are at least proportional to the Property’s overall unit mix.

**Guidance**

An example of an acceptable unit mix is:

<table>
<thead>
<tr>
<th>Apartment Type</th>
<th>Number of Units</th>
<th>Minimum 20% Unit Mix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studio</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>1 Bedroom</td>
<td>50</td>
<td>10</td>
</tr>
<tr>
<td>2 Bedroom</td>
<td>30</td>
<td>6</td>
</tr>
<tr>
<td>3 Bedroom</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>20</strong></td>
</tr>
</tbody>
</table>

**Operating Procedures**

You must use the Sponsor-Dedicated Workforce (SDW) Housing Job Aid to
commit and Deliver a Mortgage Loan qualifying for a Sponsor-Dedicated Workforce Housing pricing incentive.
Part IV  Committing and Delivery

Chapter 1  Pricing, Fees, and Prepayment Premiums

Section 101  Pricing

☑ Requirements

You must use the Pricing Memo to determine delegated pricing for Guaranty Fees, Servicing Fees, and other fees for the applicable product and features.

Operating Procedures

For non-delegated pricing, submit your loan option requests in DUS Gateway.

Section 102  Fees

☑ Requirements

You must charge Origination Fees, Servicing Fees, and other fees (such as Standby fees and large loan fees) per the Guide and the Pricing Memo. Fannie Mae will periodically review the reasonableness of your fees and may require you to adjust them.

Section 103  Prepayment Premiums

☑ Requirements

You must not waive any Prepayment Premium unless

- the Portfolio Mortgage Loan will be refinanced as a Choice Refinance Loan, and

- you comply with Part III, Chapter 18: Choice Refinance Loans, Section 1803: Prepayment Premiums.
Chapter 2  
Rate Lock and Committing

Section 201  
Pre-Commitment

**201.01  Borrower Commitment**

**Requirements**

Before obtaining a Rate Lock or a Commitment, you must:

- receive all required approvals for Pre-Review Mortgage Loans, non-delegated pricing, and Loan Document modifications; and
- enter into a Borrower Commitment that:
  - requires a Good Faith Deposit to be collected per Part IV, Chapter 2: Rate Lock and Committing, Section 203: Good Faith Deposits;
  - includes an early enough Mortgage Loan Origination Date for you to meet the Delivery deadline;
  - describes the Prepayment Premium Option; and
  - if the Mortgage Loan is not originated, requires the Borrower to pay you for all liabilities, including an amount at least equal to your potential Breakage Fees under the Rate Lock.

**201.02  Trading Agreements**

**Guidance**

For MBS Mortgage Loans, you may

- sell the MBS to the Multifamily Trading Desk, or
- undertake a Lender-Arranged Sale.

**Requirements**

By entering into an MBS or cash trade with the Multifamily Trading Desk, you agree to comply with the Trading Practices per Part IV, Chapter 2: Rate Lock and Committing, Section 201.03: Trading Practices (your “trading agreement” with the Multifamily Trading Desk).

Before you trade with a Third Party MBS Investor, you must enter into a Third Party MBS Trading Agreement.

You may not act as an agent for a principal for any Rate Lock with the Multifamily Trading Desk or a Third Party MBS Investor.
Requirements

You agree Fannie Mae:

- may decline to provide pricing or to participate in any trade you request with the Multifamily Trading Desk;
- may close your trading account and your access to the Multifamily Trading Desk services at any time; and
- reserves the right to stop entering into Rate Locks at any time without prior notice (such as during periods of high market volatility), but will attempt to provide advance notice.

You must determine if there is a market for the MBS before seeking a quote from the Multifamily Trading Desk or Third Party MBS Investor for a non-standard Prepayment Premium or other structure.

Operating Procedures

<table>
<thead>
<tr>
<th>Step</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before Rate Lock</td>
<td></td>
</tr>
</tbody>
</table>
| 1    | • Establish an asset counterparty account with the Multifamily Trading Desk and/or any Third Party MBS Investor. An asset counterparty account with the Multifamily Trading Desk must:  
   - name the people you authorize to transact business on your behalf; and  
   - include your address and wiring instructions.  

• Notify the Multifamily Trading Desk of any changes to the authorized people or account information. |
<table>
<thead>
<tr>
<th>Step</th>
<th>You must...</th>
</tr>
</thead>
</table>
| 2    | Provide the Minimum Required Trade Information (including any Additional Disclosure items) to all potential Investors:  
  - Complete either:  
    - Form 4097.Fixed Multifamily Required Trade Information for Cash or MBS, for a fixed Rate Mortgage Loan; or  
    - Form 4097.ARM Multifamily Required Trade Information for Cash or MBS, for an ARM Loan, SARM Loan, or Hybrid ARM Loan.  
  - Ensure any information you provide to potential Investors matches what you delivered to Fannie Mae. |
| 3    | Inform any Third Party MBS Investor that Fannie Mae will securitize the Mortgage Loan if the Delivered Mortgage Loan Amount is within the delivery tolerance per Part IV, Chapter 4: Delivery, Section 405.01: Acceptability and Delivery Tolerance. |
| 4    | Ensure the Minimum Required Trade Information for MBS Mortgage Loans includes  
  - any Additional Disclosure per Part IV, Chapter 5: Purchase, Section 504.02: Additional Disclosure, and  
  - any specific disclosures per the Additional Disclosure Guidance (Form 4098). |
| 5    | Ensure, in the event of a conflict, the trade is controlled in this order of priority:  
  - Rate Lock;  
  - any applicable Third Party MBS Trading Agreement;  
  - all applicable provisions of Part IV; and  
  - the Lender Contract. |
<p>| 6    | Comply with the Pricing Memo. |
| 7    | Collect the Good Faith Deposit from the Borrower. |
| 8    | Include the Minimum Required Trade Information in the Rate Lock confirmation. |
|      | <strong>After Rate Lock</strong> |
| 9    | Within 1 Business Day after obtaining the Rate Lock, request a Commitment. |</p>
<table>
<thead>
<tr>
<th>Step</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Before assigning any Rate Lock with the Multifamily Trading Desk, obtain Fannie Mae's consent.</td>
</tr>
<tr>
<td>11</td>
<td>Include Additional Disclosure items when requesting an MBS Commitment.</td>
</tr>
</tbody>
</table>
| 12   | • Before Delivery, inform the Investor of any changes in the Minimum Required Trade Information that occurred after Rate Lock.  
  • Ensure the Delivered Mortgage Loan Amount is within the delivery tolerance per Part IV, Chapter 4: Delivery, Section 405.01: Acceptability and Delivery Tolerance. |
| 13   | Promptly inform Multifamily Acquisitions of any MBS Investor delivery contract disputes, including any failed Deliveries. |

**Guidance**

For MBS Mortgage Loans, after the Security is delivered to the Investor, contact the MBS Investor hotline at 1-800-BEST-MBS with all subsequent Investor inquiries.

**Section 202**

**Obtaining a Rate Lock**

**202.01 Rate Lock Period**

- **Requirements**

  Your Rate Lock Period must be less than or equal to:

  - 180 days for a fixed rate Mortgage Loan;
  - 45 days for an ARM Loan or SARM Loan; or
  - the period per the confirmed Forward Commitment.

- **Guidance**

  For a Choice Refinance Loan, you may obtain a Rate Lock up to 180 days before the Prepayment Premium Period End Date of the Portfolio Mortgage Loan.

  If Fannie Mae consents to a Rate Lock Period greater than 180 days, the Multifamily Trading Desk will be the only permitted Investor.
Operating Procedures

After obtaining a Rate Lock, the Rate Lock expiration date can only be extended per Part IV, Chapter 2: Rate Lock and Committing, Section 204.03B: Rate Lock Extensions.

202.02 Rate Lock Amount

Requirements

The Rate Lock amount must:

- be based on a full underwriting of the Mortgage Loan per Parts I, II, and the applicable products and features of Part III; and
- equal the final Mortgage Loan amount, subject only to the delivery tolerance per Part IV, Chapter 4: Delivery, Section 405.01: Acceptability and Delivery Tolerance.

202.03 Locking the Rate

Requirements

Before obtaining a Rate Lock, you must

- determine the Guaranty Fee and Servicing Fee, and
- comply with the Trading Practices per Part IV, Chapter 2: Rate Lock and Committing, Section 201.03: Trading Practices.

By engaging with the Multifamily Trading Desk for a Rate Lock, you agree

- to have all telephone conversations recorded, and
- that you are legally obligated to any Rate Lock made during these conversations.

When selling to the Multifamily Trading Desk or a Third Party MBS Investor, you must agree on the

- Pass-Through Rate,
- purchase price, and
- Delivery or purchase conditions.

Operating Procedures

For each sale type, follow this process:
<table>
<thead>
<tr>
<th>Sale Type</th>
<th>Process</th>
</tr>
</thead>
</table>
| Lender Sale to Fannie Mae as MBS Investor     | • Contact the Multifamily Trading Desk for an MBS quote.  
  • If the quote is accepted, you will receive the terms in an MBS trade confirmation from the Multifamily Trading Desk.  
  • Promptly notify the Multifamily Trading Desk if you:  
    - find any errors in the confirmation;  
    - do not receive a confirmation within 2 Business Days after Rate Lock execution; or  
    - notice a conflict between the recorded telephone conversation and the confirmation.  
  • For conflicts, the recorded conversation will establish the Multifamily Trading Desk MBS trade terms. |
| Lender-Arranged Sale                          | Confirm your Rate Lock accurately describes the MBS trade with the Third Party MBS Investor.                                        |
| Lender Sale to Fannie Mae for cash           | Contact the Multifamily Trading Desk for a cash quote.                                                                                   |

**Section 203** Good Faith Deposits

### 203.01 Borrower Deposit

<table>
<thead>
<tr>
<th>Requirements</th>
</tr>
</thead>
</table>
| Before entering into a Rate Lock, you must collect a Good Faith Deposit from the Borrower in the form of either cash or a letter of credit.  
The Good Faith Deposit equals:  
- the Minimum Good Faith Deposit per Part IV, Chapter 2: Rate Lock and Committing, Section 203.02: Minimum Good Faith Deposit; plus  
- any additional deposit required by a Third Party MBS Investor; plus  
- any other deposit you require. |
Minimum Good Faith Deposit

Unless directed by Fannie Mae, you must determine the Minimum Good Faith Deposit as follows:

<table>
<thead>
<tr>
<th>For a...</th>
<th>With a Rate Lock Period...</th>
<th>The Minimum Good Faith Deposit is...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage Loan with a Rate Lock amount of $9 million or less</td>
<td>Less than or equal to 90 days</td>
<td>1% of the Rate Lock amount.</td>
</tr>
<tr>
<td>Mortgage Loan with a Rate Lock amount of more than $9 million</td>
<td>Less than or equal to 90 days</td>
<td>2% of the Rate Lock amount.</td>
</tr>
<tr>
<td>Supplemental Mortgage Loan of any amount</td>
<td>Less than or equal to 90 days</td>
<td>2% of the Rate Lock amount.</td>
</tr>
<tr>
<td>Mortgage Loan or Supplemental Mortgage Loan of any amount</td>
<td>More than 90 days and less than or equal to 180 days</td>
<td>3% of the Rate Lock amount.</td>
</tr>
</tbody>
</table>
| Mortgage Loan of any amount | More than 180 days for a non-Forward Commitment | The greater of
  • 3% of the Rate Lock amount, or
  • the amount approved by the Fannie Mae Deal Team. |
| Credit Enhancement Mortgage Loan of any amount | Per the Credit Enhancement Commitment Letter | 1% of the Rate Lock amount. |
| For a Forward Commitment | Per the confirmed Forward Commitment | Equal to the Minimum Good Faith Deposit charged for the permanent Mortgage Loan. |
If you accept a letter of credit for any portion of the Good Faith Deposit, you remain liable and responsible for all Breakage Fees.

You should:

- Ensure the letter of credit expiration date is at least 15 days after the
  - Rate Lock expiration date, or
  - Commitment expiration date.

- Extend the letter of credit expiration date after an extension of the
  - Rate Lock expiration date, or
  - Commitment expiration date.

### 203.03 Good Faith Deposit and Breakage Fees

**Requirements**

You must indemnify the Investor for all Breakage Fees.

<table>
<thead>
<tr>
<th>Sale Type</th>
<th>Good Faith Deposit Control</th>
<th>The Breakage Fee equals...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multifamily Trading Desk trades (MBS or cash)</td>
<td>You must hold the Minimum Good Faith Deposit.</td>
<td>The Minimum Good Faith Deposit per Part IV, Chapter 2: Rate Lock and Committing, Section 203.02: Minimum Good Faith Deposit.</td>
</tr>
<tr>
<td>Lender-Arranged Sales</td>
<td>You must comply with the Third Party MBS Trading Agreement.</td>
<td>The amount per the Rate Lock and Third Party MBS Trading Agreement.</td>
</tr>
</tbody>
</table>

Unless applied to Breakage Fees, you must refund the Good Faith Deposit to the Borrower

- no earlier than the Mortgage Loan Origination Date, and
- within a commercially reasonable time period after Fannie Mae purchases the Mortgage Loan, per Part IV, Chapter 5: Purchase.
204.01 Submission

Requirements

You must request the Commitment by 3:30 p.m. Eastern Time on the Business Day after the date the Rate Lock is executed.

After a Commitment is confirmed, you must not

- replace or substitute any Property securing the Mortgage Loan, or
- assign the Commitment.

Guidance

Fannie Mae reserves the right to reject any Commitment request.

Each Commitment is issued for a single Mortgage Loan, but a Mortgage Loan may be secured by 1 or more Properties.

Operating Procedures

To request a Commitment, perform the following, as applicable:

<table>
<thead>
<tr>
<th>For...</th>
<th>Process</th>
</tr>
</thead>
</table>
| All Mortgage Loans | 1. Enter all information into C&D per the screen instructions and C&D User Manual.  
                     2. Coordinate with Multifamily Acquisitions to resolve any submission problems or discrepancies. |
| MBS Mortgage Loans | 1. Identify any special characteristics requiring Additional Disclosure.  
                     2. Comply with Part IV, Chapter 5: Purchase, Section 504.02: Additional Disclosure and Form 4098. |

After the Commitment is in a “submitted” status in C&D, you cannot change it.

If Fannie Mae determines any Commitment terms are incorrect or invalid, you will be directed to make necessary changes.

You must notify the Investor of the changes.

204.02 Confirmation

Requirements

Upon confirmation, you must Deliver, and Fannie Mae must purchase, the
Mortgage Loan according to the Commitment.

** Guidance **

After Fannie Mae confirms the Commitment, you may use the confirmation to secure warehouse financing.

### 204.03 Modifications

#### 204.03A Change Requests

** Operating Procedures **

After confirmation, if you believe the Commitment is incorrect, submit a data change request in C&D.

Fannie Mae will:

- accept the revised terms, modify the Commitment, and make necessary data changes; or
- reject the revised terms and either enforce the original Commitment or terminate the Commitment.

#### 204.03B Rate Lock Extensions

** Requirements **
<table>
<thead>
<tr>
<th>For...</th>
<th>Extension Requirements</th>
</tr>
</thead>
</table>
| MBS or cash Multifamily Trading Desk trades | • If the initial Rate Lock Period was 90 days or less, you must  
  - request Multifamily Trading Desk approval, and  
  - agree to pay any Rate Lock Extension Fee per the Pricing Memo.  

• If an extension would cause the total Rate Lock Period to exceed:  
  - 90 days, you must collect the additional required Minimum Good Faith Deposit; or  
  - 180 days, you must obtain Fannie Mae Deal Team approval before seeking the extension and collect the additional required Minimum Good Faith Deposit.  

• After you agree to pay the Rate Lock Extension Fee, the Rate Lock expiration date will be changed to a date that  
  - was mutually agreed to, and  
  - is not more than 30 days after the original Rate Lock expiration date. |

| Lender-Arranged Sales | If you negotiate a Rate Lock expiration date extension with the Third Party MBS Investor:  
  • You must notify the Fannie Mae Deal Team of the new Rate Lock expiration date and any required interest rate adjustment.  
  • The extension must not  
    - exceed 30 days after the original Rate Lock expiration date, or  
    - cause the total Rate Lock Period to exceed 180 days. |

| Forward Commitments | Per Part III, Chapter 20: Forward Commitments, Section 2003.05C: Forward Commitment Extensions. |
Requirements

If you extend the Rate Lock expiration date, you must also request a Commitment extension.

Operating Procedures

To extend the Commitment:

1. Submit a data change request in C&D on or before the Commitment expiration date.
2. For an MBS Mortgage Loan, obtain any necessary MBS Investor approval for any Book-Entry Date change.
3. Fannie Mae will change your Commitment in C&D to reflect the new Commitment expiration date and the revised Book-Entry Date, if necessary.
4. When Fannie Mae approves the extension, you will receive a new Commitment expiration date.

Section 205  ASAP Options

Requirements

To participate in the ASAP Options, you must

- be approved in writing, and
- execute the applicable ASAP Contracts provided by the Capital Markets Early Funding Desk.

Guidance

Using the ASAP Options, you may sell Mortgage Loans to Fannie Mae on an accelerated basis after the Mortgage Loan Origination Date.

<table>
<thead>
<tr>
<th>ASAP Option</th>
<th>Is available for...</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASAP Sale</td>
<td>MBS Mortgage Loans</td>
</tr>
<tr>
<td>ASAP Plus</td>
<td>• MBS Mortgage Loans</td>
</tr>
<tr>
<td></td>
<td>• Cash Mortgage Loans</td>
</tr>
</tbody>
</table>
Chapter 3  Streamlined Rate Lock

Section 301  Description

301.01  Eligibility

☒ Requirements

You must not use the Streamlined Rate Lock option for

- ARM Loans, and
- SARM Loans.

301.02  Timing

☒ Requirements

For all Streamlined Rate Lock Mortgage Loans:

<table>
<thead>
<tr>
<th>Timing</th>
<th>At a minimum, you must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before Rate Lock</td>
<td>Comply with:</td>
</tr>
<tr>
<td></td>
<td>• Part II, Chapter 1: Attributes and Characteristics, Section 105: Minimum Occupancy;</td>
</tr>
<tr>
<td></td>
<td>• Part IV, Chapter 2: Rate Lock and Committing, Section 203: Good Faith Deposits;</td>
</tr>
<tr>
<td></td>
<td>• Part IV, Chapter 3: Streamlined Rate Lock, Section 302: Preliminary Underwriting; and</td>
</tr>
<tr>
<td></td>
<td>• for a Green Mortgage Loan, the Job Aid: Streamlined Rate Lock and Green Mortgage Loans if you have not received</td>
</tr>
<tr>
<td></td>
<td>- the PCA with an HPB Module (or a separate HPB Report) confirming that the Property will qualify as a Green Rewards Mortgage Loan, or</td>
</tr>
<tr>
<td></td>
<td>- any required Green Building Certification.</td>
</tr>
</tbody>
</table>
### Timing

<table>
<thead>
<tr>
<th>Timing</th>
<th>At a minimum, you must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>After Rate Lock</td>
<td>• Complete full underwriting.</td>
</tr>
<tr>
<td></td>
<td>• Ensure that any changes to the Rate Lock or Commitment after full underwriting comply with Part IV, Chapter 2: Rate Lock and Committing, by the earlier of</td>
</tr>
<tr>
<td></td>
<td>- the Mortgage Loan Origination Date, or</td>
</tr>
<tr>
<td></td>
<td>- 90 days after the Streamlined Rate Lock.</td>
</tr>
</tbody>
</table>

### Section 302 Preliminary Underwriting

#### Requirements

Before obtaining a Streamlined Rate Lock, you must:

- Have sufficient information and documentation to obtain preliminary approval from your internal loan committee for the Streamlined Rate Lock Mortgage Loan.
- For a refinance, confirm the Portfolio Mortgage Loan is not in monetary default.
- Obtain an executed Borrower Commitment (per Part IV, Chapter 2: Rate Lock and Committing, Section 201.01: Borrower Commitment) requiring the Borrower to
  - close the Streamlined Rate Lock Mortgage Loan, and
  - be liable for any costs, fees, or damages for failing to originate the Mortgage Loan.
- Collect from the Borrower
  - the Good Faith Deposit (per Part IV, Chapter 2: Rate Lock and Committing, Section 203: Good Faith Deposits), and
  - funds to pay for transaction costs, including third-party reports.
- Identify the Borrower (except a Borrower that is being newly formed) per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, and comply with
  - Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 303: Key Principals, Principals, and Guarantors,
  - Part I, Chapter 3: Borrower, Guarantor, Key Principals, and...
Principals, Section 307: Applicant Experience Check, and
- Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance.

Advise the Borrower
- to review the Loan Documents and request any changes, and
- after Rate Lock, subsequent unapproved Loan Document modification requests are not a defense for failing to originate the Mortgage Loan according to the Commitment (at the Rate Lock amount).

Enter into a Streamlined Rate Lock Agreement with the Borrower and Guarantor (or Key Principals if no Guarantor has been identified or is required) requiring each party to pay any damages if the Borrower does not originate the Mortgage Loan, including damages to a Third Party MBS Investor that may exceed Fannie Mae’s Minimum Good Faith Deposit.

**Section 303** Rate Lock

**Requirements**

Before obtaining a Streamlined Rate Lock, you must:

- Complete your preliminary underwriting, including the due diligence per Part IV, Chapter 3: Streamlined Rate Lock, Section 302: Preliminary Underwriting.

- Obtain applicable Fannie Mae Deal Team Pre-Review or Loan Document modification approval identified during the preliminary underwriting.

- Inform the Investor and the Multifamily Trading Desk if:
  - there are any Additional Disclosures; or
  - you are underwriting the transaction as a Green Mortgage Loan, but you have not completed the underwriting needed to qualify the Property as a Green Mortgage Loan.

**Section 304** Commitment

**Requirements**

For all Streamlined Rate Lock Mortgage Loans:
Parameter | Requirements
--- | ---
Rate Lock Period | Must equal 180 days or less.
Rate Lock amount for cash and MBS trades with the Multifamily Trading Desk | You must
  • comply with Part IV, Chapter 2: Rate Lock and Committing, and
  • for Dual Commitment options per Part IV, Chapter 3: Streamlined Rate Lock, Section 307: Dual Commitment Option, notify the Multifamily Trading Desk at the time of the original Rate Lock.

**Section 305** Rate Lock and Commitment Extensions

**Requirements**

Before extending the Rate Lock expiration date and Commitment expiration date, you must

- fully underwrite the Streamlined Rate Lock Mortgage Loan, and
- comply with Part IV, Chapter 2: Rate Lock and Committing, Section 204.03: Modifications.

**Section 306** Full Underwriting

### 306.01 Rate Lock or Commitment Amount Changes

**Requirements**

Unless permitted in this Chapter, you must not change the

- Rate Lock amount after obtaining a Streamlined Rate Lock, or
- Commitment amount after a Commitment has been confirmed.

You must document all changes to the Mortgage Loan Delivery Package in Folder II, including the

- preliminary Net Cash Flow,
- Property value, and
- any other items you used to determine the Rate Lock amount.
Requirements

You must ensure that the Mortgage Loan Delivery Package is complete (per Part IV, Chapter 4: Delivery) and include all preliminary information and documentation per Part IV, Chapter 3: Streamlined Rate Lock, Section 302: Preliminary Underwriting.

Operating Procedures

Include the following in your final Mortgage Loan Delivery Package:

- a complete Transaction Approval Memo;
- underwriting spreadsheets including
  - how you calculated the Rate Lock amount for the Streamlined Rate Lock Mortgage Loan, and
  - any required changes to the Guaranty Fee and Servicing Fee for a non-qualifying Green Rewards Mortgage Loan (per Part IV, Chapter 3: Streamlined Rate Lock, Section 306.03: Post-Underwriting Scenarios);
- the calculation of any changes to the Delivered Mortgage Loan Amount; and
- all required full underwriting documentation.

### 306.03 Post-Underwriting Scenarios

**Operating Procedures**

After full underwriting, comply with one of the following scenarios:

<table>
<thead>
<tr>
<th>If...</th>
<th>Then...</th>
</tr>
</thead>
<tbody>
<tr>
<td>You are not changing the Streamlined Rate Lock or the Commitment</td>
<td>No action is required.</td>
</tr>
<tr>
<td>If...</td>
<td>Then...</td>
</tr>
<tr>
<td>---------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>You are</td>
<td>• Within 1 Business Day, submit a data change request in C&amp;D (per Part IV, Chapter 2: Rate Lock and Committing, Section 204.03A: Change Requests).</td>
</tr>
<tr>
<td>• increasing or decreasing the Delivered Mortgage Loan Amount,</td>
<td>• Update the applicable C&amp;D fields.</td>
</tr>
<tr>
<td>• within the delivery tolerance (per Part IV, Chapter 4: Delivery,</td>
<td></td>
</tr>
<tr>
<td>Section 405.01: Acceptability and Delivery Tolerance), and</td>
<td></td>
</tr>
<tr>
<td>• complying with the Pricing and Underwriting Tier</td>
<td></td>
</tr>
<tr>
<td>If...</td>
<td>Then...</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| You are ```
  • decreasing the Delivered Mortgage Loan Amount,
  • in excess of the delivery tolerance (per Part IV, Chapter 4: Delivery, Section 405.01: Acceptability and Delivery Tolerance ), and
  • complying with the Pricing and Underwriting Tier
``` | For cash and MBS trades with the Multifamily Trading Desk:
  • Confirm that Fannie Mae will accept the Delivered Mortgage Loan Amount.
  • Pay from the Good Faith Deposit - the difference between 95% of the Commitment amount and the Delivered Mortgage Loan Amount, multiplied by
    - the applicable Good Faith Deposit percentage per Part IV, Chapter 2: Rate Lock and Committing, Section 203.02: Minimum Good Faith Deposit.
    • Within 1 Business Day, submit a data change request in C&D (per Part IV, Chapter 2: Rate Lock and Committing, Section 204.03A: Change Requests).
    • Update the applicable C&D fields.

For MBS trades with a Third Party MBS Investor:
  • Confirm that the Third Party MBS Investor will accept the new amount (at least 90% of the Commitment amount).
  • Have the Third Party MBS Investor send confirmation that it will accept the new amount to Multifamily Acquisitions.
  • Within 1 Business Day, submit a data change request in C&D (per Part IV, Chapter 2: Rate Lock and Committing, Section 204.03A: Change Requests).
  • Update the applicable C&D fields. |
<table>
<thead>
<tr>
<th>If...</th>
<th>Then...</th>
</tr>
</thead>
<tbody>
<tr>
<td>You have a cash or MBS trade with the Multifamily Trading Desk and are using the Dual Commitment Option in which • the Streamlined Rate Lock Mortgage Loan qualifies for additional proceeds greater than the delivery tolerance, and • you want to increase the Commitment amount</td>
<td>• Submit a data change request in C&amp;D (per Part IV, Chapter 2: Rate Lock and Committing, Section 204.03A: Change Requests). • Update the applicable C&amp;D fields.</td>
</tr>
<tr>
<td>The Mortgage Loan will not • qualify as a Green Rewards Mortgage Loan for annual energy or water consumption, or • receive a Green Building Certification</td>
<td>Before Delivery:</td>
</tr>
<tr>
<td></td>
<td>• Notify the Fannie Mae Deal Team.</td>
</tr>
<tr>
<td></td>
<td>• Make any necessary changes to the Mortgage Loan amount and Gross Note Rate in the Loan Documents.</td>
</tr>
<tr>
<td></td>
<td>• Submit a data change request in C&amp;D (per Part IV, Chapter 2: Rate Lock and Committing, Section 204.03A: Change Requests) before the Delivery deadline that • updates the Gross Note Rate to include the alternative non-Green Guaranty Fee and Servicing Fee provided at Rate Lock as a Green Mortgage Loan, and • makes any required change in the Mortgage Loan amount.</td>
</tr>
</tbody>
</table>
If... | Then...
---|---
You want to modify the terms of the Streamlined Rate Lock and the Commitment because you cannot Deliver without them | Obtain Delivery approval from the Fannie Mae Deal Team and either the
• Multifamily Trading Desk, or
• Third Party MBS Investor, as applicable.

If Fannie Mae does not approve the request and you cannot Deliver without modifying the terms of the Streamlined Rate Lock and the Commitment, then you must comply with Part IV, Chapter 4: Delivery, Section 408: Delivery Failure.

You cannot Deliver the Streamlined Rate Lock Mortgage Loan | • Inform Multifamily Acquisitions that the Mortgage Loan will not be delivered.
• Comply with Part IV, Chapter 4: Delivery, Section 408: Delivery Failure.

Section 307 Dual Commitment Option

307.01 Description

 Guidance

You may use the Dual Commitment Option if you expect the Mortgage Loan to support a final loan amount above the delivery tolerance.

 Requirements

At the time of the original Rate Lock, you must notify the Multifamily Trading Desk if you intend to use the Dual Commitment Option.

Under the Dual Commitment Option, you must

- rate lock at least 75% of the anticipated Mortgage Loan amount, and
- not use the delivery tolerance to increase the Mortgage Loan amount.
Requirements

When using the Dual Commitment Option, you must contact the Multifamily Trading Desk to request a quote indicating:

- that the quote is associated with the original Rate Lock; and
- whether the quote is for an MBS Mortgage Loan or a Cash Mortgage Loan.

You must not change the terms of the original Rate Lock, including:

- Mortgage Loan term;
- amortization term;
- prepayment terms;
- percentage of loss sharing;
- pricing method (pricing structure per the Pricing Memo);
- amortization type (e.g., principal payment method);
- interest accrual method;
- Pricing and Underwriting Tier;
- Commitment Date;
- Rate Lock Period;
- Commitment expiration date; and
- Rate Lock expiration date.

Guidance

You do not need to increase the Good Faith Deposit under the Dual Commitment Option.

Operating Procedures

If Fannie Mae approves the Dual Commitment Option,

- the Multifamily Trading Desk will lock the rate per Part IV, Chapter 2: Rate Lock and Committing, Section 202: Obtaining a Rate Lock, and
- you must make any changes to the Commitment in C&D within 1 Business Day after Rate Lock.
<table>
<thead>
<tr>
<th>Mortgage Loan type...</th>
<th>You must...</th>
</tr>
</thead>
</table>
| MBS                   | • submit a data change request in C&D per Part IV, Chapter 2: Rate Lock and Committing, Section 204.03A: Change Requests, and  
                       • update the applicable C&D fields. |
| Cash                  | submit an Additional Rate Lock request in C&D per the C&D User Manual. |

You must revise the Commitment:

- to equal the sum of the original Commitment amount, plus the Rate Lock amount for the additional loan proceeds; and
- using an interest rate that is the weighted average of the interest rates in the
  - original Rate Lock, and
  - Rate Lock for the additional loan proceeds.
Chapter 4  Delivery

Section 401  Delivery Deadline

Requirements

By 10:30 a.m. Eastern Time on the Delivery deadline, you must

- Deliver the complete Mortgage Loan Delivery Package to Multifamily Certification and Custody, and
- submit all required data.

<table>
<thead>
<tr>
<th>Delivery Deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>MBS Mortgage Loan</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Cash Mortgage Loan</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Guidance

You should Deliver the Mortgage Loan before the Delivery deadline to allow time for you to correct any errors Fannie Mae may find.

If you do not meet the Delivery deadline and your delay requires a change in the Rate Lock expiration date, you may be charged a Rate Lock Extension Fee per Part IV, Chapter 2: Rate Lock and Committing, Section 204.03B: Rate Lock Extensions.

Section 402  Submission

402.01  Data and Documents

Requirements
<table>
<thead>
<tr>
<th>Submission Type</th>
<th>You must...</th>
</tr>
</thead>
</table>
| Data            | • Enter all information in C&D per the screen instructions and C&D User Manual to submit  
|                 |   - Mortgage Loan data by the Delivery deadline, and  
|                 |   - rent roll data by the earlier of  
|                 |     • 5 Business Days after the Mortgage Loan Origination Date, or  
|                 |     • the Delivery deadline.  
|                 | • For a Mortgage Loan funded under an ASAP Option,  
|                 |   - submit Mortgage Loan data in C&D per this Chapter or the ASAP Contract, and  
|                 |   - select the ASAP Plus or ASAP Sale indicator in C&D.  
|                 | • Ensure all data is accurate and complete.  
|                 | • Follow the C&D validation process to ensure the Mortgage Loan reaches the Submitted status.  
<p>|                 | • Email Multifamily Acquisitions if C&amp;D is preventing you from delivering valid data. |</p>
<table>
<thead>
<tr>
<th>Submission Type</th>
<th>You must...</th>
</tr>
</thead>
</table>
| Mortgage Loan Delivery Package | • Submit all applicable documents per the Multifamily Mortgage Loan Delivery Package Table of Contents (Form 6502.Folder.I.and.Folder.III and Form 6502.Folder.II) and any applicable ASAP Contract, including the Mortgage Loan's - underwriting information, and - Loan Documents.  
• Ensure all documents are accurate and complete:  
  - Use Fannie Mae's standard form Loan Documents, and only modify them if permitted by Fannie Mae.  
  - Check all appropriate boxes on Form 6502.Folder.I.and.Folder.III and Form 6502.Folder.II, and list any other documents delivered with the Mortgage Loan.  
  - Deliver a blackline copy of any modified document (including any Schedule or Exhibit), showing all changes to Fannie Mae's form documents per the document modification memo prepared by your counsel and uploaded to DUS Gateway.  
  - Submit Loan Documents consistent with the data in C&D and the Commitment.  
  - Unless submitted per an approved C&D data change, ensure physical Loan Documents are identical to electronic copies previously sent for certification.  
  - Endorse or assign the Loan Documents to Fannie Mae.  
  - Ensure the Mortgage Loan has a title insurance policy per Part II, Chapter 3: Legal Compliance, Section 304: Title Insurance. You may submit the title policy with blanks for the recording information, but you must deliver a final title policy with this information to Multifamily Certification and Custody within 6 months of the Mortgage Loan Origination Date. |

Operating Procedures
If the number of Mortgage Loans per MBS pool is...

<table>
<thead>
<tr>
<th>Then you must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
</tr>
<tr>
<td>Label the Mortgage Loan Delivery Package reflecting the number of envelopes, folders, or containers submitted with the Loan Documents, such as 1 of 2 and 2 of 2.</td>
</tr>
<tr>
<td>More than 1</td>
</tr>
</tbody>
</table>
| • Ensure the Mortgage Loan Delivery Package is in the same numerical order as the C&D data submission.  
  • Group the Mortgage Loans as 1 package  
    - including all Mortgage Loans within the MBS Pool, and  
    - labeled reflecting the number of envelopes, folders, or containers submitted with the Loan Documents, such as 1 of 4, MBS Pool #_____, and 2 of 4, MBS Pool #_____. |

402.02 Participation Interests

Requirements

For Participation Interests, you must deliver the following additional documents.

<table>
<thead>
<tr>
<th>If the Participation Interest is...</th>
<th>Then you must deliver...</th>
</tr>
</thead>
<tbody>
<tr>
<td>In Certificate Form</td>
<td></td>
</tr>
</tbody>
</table>
| • the original participation certificate, and  
  • if the certificate was not issued in Fannie Maes name, an instrument assigning it to Fannie Mae. |
| Not in Certificate Form            |
| the original documentation showing its issuance or conveyance to Fannie Mae. |

Section 403 Warehouse Lender

Guidance

You may originate a Mortgage Loan with proceeds from a warehouse lender.

Operating Procedures
If the warehouse lender uses a bailee letter to deliver the Note to Fannie Mae, the letter must be acceptable to Fannie Mae.

Section 404  Wiring

404.01  Wiring Instructions

☑ Requirements

You must accurately complete all wiring instructions in C&D.

☑ Operating Procedures

Fannie Mae will wire the funds or MBS per the C&D instructions. If there is a conflict between the C&D instructions and any bailee letter from your warehouse lender, then you must submit a change request in C&D.

404.02  Wiring Payee Codes

☑ Requirements

If you request, Fannie Mae will assign wire transfer payee codes for your Cash Mortgage Loan proceeds. You must

- request a separate payee code for each account to which Fannie Mae will send funds, and
- enter the applicable payee code in C&D.

☑ Operating Procedures

Each payee code will be associated with a specific account and financial institution. You may not transfer codes between your accounts or with other Lenders.

See Seller's Designation of Wire Transfers Instructions (Form 482) and Certificate of Authority, Incumbency, and Specimen Signatures (Form 360) for payee code information.

Section 405  Delivery

405.01  Acceptability and Delivery Tolerance

☑ Requirements

For the Mortgage Loan to be acceptable for purchase, you must ensure:
It complies with:

- Form 4660;
- Part I;
- Part II;
- the applicable chapters of Part III based on the specific products and features of the Mortgage Loan; and
- the Pricing and Underwriting Tier per the Commitment.

For an MBS Mortgage Loan:

- Fannie Mae has not informed you that the Mortgage Loan fails to meet all eligibility requirements for Fannie Mae to make a REMIC election when issuing the associated MBS (see Form 4098 for REMIC eligibility information); and
- either the Same Month Pooling delivery option applies, or:
  - the Book-Entry Date is before the Mortgage Loan’s first scheduled monthly payment date; and
  - the first monthly payment to the MBS Investor is the first monthly payment due under the Mortgage Loan.

The Delivered Mortgage Loan Amount is within the delivery tolerance.

Operating Procedures

<table>
<thead>
<tr>
<th>Delivery Tolerance</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Calculation</strong></td>
<td><strong>Examples</strong></td>
</tr>
<tr>
<td>Commitment Amount plus or minus</td>
<td>• Delivered Mortgage Loan Amount must be at least 95% and not more than 105% of the Commitment Amount.</td>
</tr>
<tr>
<td>• 5% of the Commitment Amount, or</td>
<td>• If a Third Party MBS Investor allows a 3% delivery tolerance, then the Delivered Mortgage Loan Amount must be at least 97% and not more than 103% of the Commitment Amount.</td>
</tr>
<tr>
<td>• a lesser percentage per a Third Party MBS Investor delivery requirement.</td>
<td></td>
</tr>
</tbody>
</table>
Requirements

To make data changes after you submit the Mortgage Loan in C&D, you must submit a C&D data change request per the C&D User Manual.

If the MBS Mortgage Loan has a special characteristic or an Additional Disclosure item that was not identified when the Commitment was confirmed, you must:

- notify Multifamily Acquisitions as soon as possible, but no later than the date of Delivery, and
- make the Additional Disclosure per Part IV, Chapter 5: Purchase, Section 504.02: Additional Disclosure.

Section 406 MBS Delivery Options

Requirements

The Book-Entry Date you choose determines the delivery option.

<table>
<thead>
<tr>
<th>Delivery Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Delivery</td>
</tr>
<tr>
<td>• Book-Entry Date is in the month before the Mortgage Loans first payment date, and</td>
</tr>
<tr>
<td>• Mortgage Loan Origination Date is no later than the month before the month the MBS will be issued.</td>
</tr>
<tr>
<td>Same Month Pooling</td>
</tr>
<tr>
<td>• Book-Entry Date is in the same month as the Mortgage Loan Origination date, and</td>
</tr>
<tr>
<td>• Mortgage Loan Origination Date is early enough in the month to allow Fannie Mae to issue the MBS within the same month.</td>
</tr>
<tr>
<td>ASAP</td>
</tr>
<tr>
<td>Per the ASAP Contract.</td>
</tr>
</tbody>
</table>

Operating Procedures

See Part IV, Chapter 5: Purchase, Section 503: Third Party MBS Investor Delivery Scenarios for MBS delivery and settlement information.

The MBS Delivery Parameters table describes the delivery options.
<table>
<thead>
<tr>
<th>MBS Delivery Options</th>
<th>If Mortgage Loan Origination Date is...</th>
<th>and first loan payment date is...</th>
<th>then Book-Entry Date is...</th>
<th>and MBS Issue Date is...</th>
<th>Additional Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>MBS Standard Delivery Delivery</td>
<td>No later than the month before the month the MBS will be issued (generally may occur on any Business Day)</td>
<td>The 1st day of the 2nd month after Mortgage Loan Origination Date</td>
<td>In the month before the 1st loan payment date</td>
<td>Always the 1st of the month in which the Book-Entry Date occurs</td>
<td>N/A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Example</th>
<th>1/15</th>
<th>3/1</th>
<th>2/20</th>
<th>2/1</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>MBS Same Month Pooling Delivery: Scenario 1</td>
<td>The 1st of the month</td>
<td>The 1st day of the month after Mortgage Loan Origination Date</td>
<td>In the same month as Mortgage Loan Origination Date</td>
<td>Always the 1st of the month in which the Book-Entry Date occurs</td>
<td>N/A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Example</th>
<th>1/1</th>
<th>2/1</th>
<th>1/25</th>
<th>1/1</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>MBS Same Month Pooling Delivery: Scenario 2</td>
<td>A day other than the 1st of the month</td>
<td>The 1st day of the 2nd month after Mortgage Loan Origination Date</td>
<td>In the same month as Mortgage Loan Origination Date</td>
<td>Always the 1st of the month in which the Book-Entry Date occurs</td>
<td>Interest only payment is due to the MBS Investor in the month before the 1st loan payment date</td>
</tr>
</tbody>
</table>
Section 407 Delivery Problems and Changes

407.01 Delivery Problems

Requirements

If you anticipate a delivery problem (such as a late Delivery or a Delivered Mortgage Loan Amount outside the delivery tolerance), you must contact:

- the Multifamily Trading Desk or the Third Party MBS Investor, as applicable;
- Multifamily Acquisitions;
- the Fannie Mae Deal Team; and
- for an ASAP transaction, the Capital Markets Early Funding Desk.

Operating Procedures

<table>
<thead>
<tr>
<th>If...</th>
<th>Then...</th>
</tr>
</thead>
<tbody>
<tr>
<td>You are subject to a Bankruptcy Event or are unable to perform your obligations relating to the...</td>
<td>Fannie Mae will</td>
</tr>
<tr>
<td>• Rate Lock,</td>
<td>• consider the Rate Lock expiration date and Commitment expiration...</td>
</tr>
<tr>
<td>• Commitment,</td>
<td>date to have occurred, and</td>
</tr>
<tr>
<td>• applicable Third Party MBS Trading Agreement, or</td>
<td>• have the right to draft the Minimum</td>
</tr>
<tr>
<td>• Multifamily Trading Desk trading account</td>
<td>Good Faith Deposit.</td>
</tr>
</tbody>
</table>
Changing the Book-Entry Date

Requirements

If you or Fannie Mae determine that the Delivery deadline cannot be met, the Book-Entry Date must be changed.

Operating Procedures

To change the Book-Entry Date:

Step 1: Fannie Mae will advise you of the earliest available new Book-Entry Date.

Step 2: You must contact the Third Party MBS Investor and establish a new Book-Entry Date, and new Rate Lock expiration date and Commitment expiration date (if needed).

Step 3: For Commitment changes, you must submit a change request per Part IV, Chapter 3: Streamlined Rate Lock, Section 305: Rate Lock and Commitment Extensions.

Step 4: You must pay any fees and adjustments to the Pass-Through Rate for the new Book-Entry Date.

Delivery Failure

Requirements

Neither you nor the Borrower may profit from a failed Delivery.

Operating Procedure

Fannie Mae may take certain actions if the Mortgage Loan Delivery does not occur by the Delivery deadline, and this failure results in Fannie Mae being unable to settle the MBS by the Rate Lock expiration date for an MBS Mortgage Loan, or purchase the Mortgage Loan by the earlier of the Rate Lock expiration date or the Commitment expiration date for a Cash Mortgage Loan.
### For MBS or Cash Trades...

**With the Multifamily Trading Desk**

**If you fail to Deliver the Mortgage Loan...**

Fannie Mae will:

- draft as Breakage Fees, paid to the Multifamily Trading Desk for the broken Rate Lock, an amount equal to:
  - the Minimum Good Faith Deposit from your account, retaining it as liquidated damages in full satisfaction of your Rate Lock obligations; or
  - for a Forward Commitment, per Part III, Chapter 20: Forward Commitments, Section 2003.02B: Fees;

- collect the Withdrawn Commitment Fee due to Fannie Mae per the Pricing Memo; and
- return the Mortgage Loan Documents to you or to an applicable warehouse lender.

This remedy will occur

- after the Rate Lock expiration date or the Commitment expiration date, but
- no sooner than the 2nd Business Day after Fannie Mae sends you a notice of default.

If the Rate Lock Period is more than 180 days, the Fannie Mae Multifamily Trading Desk will determine any additional remedies at the time of Rate Lock.
<table>
<thead>
<tr>
<th>For MBS or Cash Trades...</th>
<th>If you fail to Deliver the Mortgage Loan...</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>For Lender-Arranged Sales</strong></td>
<td><strong>You must:</strong></td>
</tr>
<tr>
<td></td>
<td>• provide Fannie Mae with copies of the Third Party MBS Investor's trading agreement for the failed Delivery, including Breakage Fee calculation methodology, and Rate Lock agreement for the failed Delivery;</td>
</tr>
<tr>
<td></td>
<td>• comply with the requirements of the Third Party MBS Investor;</td>
</tr>
<tr>
<td></td>
<td>• protect and hold Fannie Mae harmless against all actions or costs that may result from not complying with Third Party MBS Investor requirements;</td>
</tr>
<tr>
<td></td>
<td>• pay the Third Party MBS Investor any Breakage Fees, whether or not it holds the Good Faith Deposit you collected from the Borrower; and</td>
</tr>
<tr>
<td></td>
<td>• pay Fannie Mae:</td>
</tr>
<tr>
<td></td>
<td>- the difference as a Breakage Fee for the broken Commitment if the breakage fees paid to the Third Party MBS Investor are less than the Minimum Good Faith Deposit; and</td>
</tr>
<tr>
<td></td>
<td>- any Withdrawn Commitment Fee due per the Pricing Memo.</td>
</tr>
</tbody>
</table>

If Fannie Mae does not purchase the Mortgage Loan, the Mortgage Loan documents will be returned to you or to an applicable warehouse lender.
Chapter 5  Purchase
Section 501  Generally

### 501.01 Cash and MBS

- **Requirements**

  Before Fannie Mae purchases an MBS Mortgage Loan or a Cash Mortgage Loan per the Commitment, you must ensure:
  - the Mortgage Loan complies with Part IV, and
  - an MBS Mortgage Loan complies with all disclosure requirements.

### 501.02 Delivery and Purchase

- **Requirements**

  You must deliver the Mortgage Loan by the Delivery deadline to ensure sufficient time for Fannie Mae to review the Mortgage Loan data and Mortgage Loan Delivery Package for purchase.

- **Operating Procedures**

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Fannie Mae will...</th>
</tr>
</thead>
<tbody>
<tr>
<td>MBS Mortgage Loan</td>
<td>Purchase the Mortgage Loan on the Book-Entry Date by wiring the MBS via the Federal Reserve book-entry system per the wiring instructions you submitted in C&amp;D.</td>
</tr>
<tr>
<td>Loan Type</td>
<td>Fannie Mae will...</td>
</tr>
<tr>
<td>-------------------</td>
<td>-----------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Cash Mortgage Loan</td>
<td>• Purchase the Mortgage Loan 48 hours after certifying it.</td>
</tr>
<tr>
<td></td>
<td>• Wire the purchase amount per the wiring instructions you submitted in C&amp;D.</td>
</tr>
<tr>
<td></td>
<td>• Disburse funds per this Chapter and the payee codes you submitted in C&amp;D (see Part IV, Chapter 4: Delivery, Section 404.02: Wiring Payee Codes).</td>
</tr>
<tr>
<td></td>
<td>• Issue a detailed electronic purchase advice for each Mortgage Loan listing components of the net disbursement, including</td>
</tr>
<tr>
<td></td>
<td>- purchased principal,</td>
</tr>
<tr>
<td></td>
<td>- any accrued interest,</td>
</tr>
<tr>
<td></td>
<td>- prepaid interest, or</td>
</tr>
<tr>
<td></td>
<td>- returned fees.</td>
</tr>
<tr>
<td></td>
<td>• Assume no responsibility or liability for disbursing any other funds.</td>
</tr>
</tbody>
</table>

**Guidance**

For a Cash Mortgage Loan, you may request that Fannie Mae purchase the Mortgage Loan before the Commitment expiration date by

- selecting the Targeted Funding Date option in C&D, and
- ensuring Fannie Mae receives the complete Delivery 3 Business Days before (and not including) the requested purchase date.

**501.03 C&D Purchase Notification**

**Operating Procedures**

After Fannie Mae acquires the Mortgage Loan, you will see the status in C&D of

- “Funded” for a Cash Mortgage Loan, or
- “Active/Issued” for an MBS Mortgage Loan.

**501.04 Fannie Mae Loan Number**

**Requirements**
You must reference the Loan Number in all communications with Fannie Mae about the Mortgage Loan.

**Operating Procedures**

You will receive the Loan Number through C&D after
- Fannie Mae closes the MBS Pool for an MBS Mortgage Loan, or
- you submit the Mortgage Loan data for a Cash Mortgage Loan.

## Section 502  Purchase Amount

**Operating Procedures**

For a Cash Mortgage Loan, the purchase amount will be based on
- the price (expressed as a percentage) per the Commitment,
- multiplied by the Mortgage Loan UPB at purchase, and
- adding any accrued interest or deducting any prepaid interest, calculated based on the purchase date, to reflect your and Fannie Mae’s respective shares.

For an MBS Mortgage Loan,
- Fannie Mae will wire the MBS Security in its face amount, and
- you will coordinate with your MBS Investor to determine any interest-related adjustments to the settlement proceeds due on the Book-Entry Date.

## Section 503  Third Party MBS Investor Delivery Scenarios

**Operating Procedures**
<table>
<thead>
<tr>
<th>Delivery to...</th>
<th>Under this scenario...</th>
</tr>
</thead>
<tbody>
<tr>
<td>You or Your Designee</td>
<td>• Fannie Mae will deliver the MBS directly to your account or to your designee through the Federal Reserve book-entry system.</td>
</tr>
<tr>
<td></td>
<td>• You or your designee will deliver the MBS to the Third Party MBS Investor through the Federal Reserve book-entry system. The Federal Reserve simultaneously will</td>
</tr>
<tr>
<td></td>
<td>- credit the Third Party MBS Investors account with the MBS,</td>
</tr>
<tr>
<td></td>
<td>- debit the Third Party MBS Investors account for the purchase amount, and</td>
</tr>
<tr>
<td></td>
<td>- credit your account for the purchase amount.</td>
</tr>
<tr>
<td>Third Party MBS Investor</td>
<td>• Fannie Mae will deliver the MBS directly to the Third Party MBS Investors account per your delivery instructions.</td>
</tr>
<tr>
<td></td>
<td>• When the Third Party MBS Investor receives the MBS, it will wire payment to you per the agreed-upon terms.</td>
</tr>
</tbody>
</table>

**Section 504**  
**MBS Mortgage Loan Disclosure**

**504.01**  
**Multifamily MBS Prospectus**

 Guidance

For all MBS, Fannie Mae issues a Multifamily MBS Prospectus containing information for MBS Investors, including:

- a general description of Fannie Mae's multifamily mortgage business;
- disclosure of general MBS risk factors;
- property types securing multifamily mortgage loans; and
- specific Security, Mortgage Loan, and Property disclosure data.

Since different characteristics may affect the performance assumptions and risk factors associated with an MBS, Fannie Mae uses Additional Disclosure to inform all MBS Investors if any MBS Mortgage Loans have characteristics or terms that differ from those described in the standard Multifamily MBS Prospectus.

You may access Multifamily MBS Prospectus documents at [https://multifamily.fanniemae.com](https://multifamily.fanniemae.com).
For MBS issued prior to December 2017, Fannie Mae prepared a Prospectus Supplement containing specific Mortgage Loan information in addition to the Multifamily MBS Prospectus. This Prospectus Supplement had 2 parts:

- The Prospectus Supplement Narrative (standard) was a transaction-specific disclosure describing the terms and structure of the Mortgage Loan.
- The Schedule of Pool and Loan Information, including:
  - Pool Statistics, providing Security-level disclosure data; and
  - Multifamily Schedule of Loan Information, including specific Mortgage Loan and Property disclosure data.

### 504.02 Additional Disclosure

#### Requirements

You must disclose any Mortgage Loans requiring Additional Disclosure (per Form 4098) to Fannie Mae and to the MBS Investor using the applicable Form 4097.Fixed or Form 4097.ARM before obtaining a Rate Lock.

#### Operating Procedures

If you identify Additional Disclosure features on the applicable Form 4097.Fixed or Form 4097.ARM, you must also

- mark the Mortgage Loan for Additional Disclosure in C&D,
- provide detailed information about the Additional Disclosure, and
- consult with the Fannie Mae Deal Team.

#### Guidance

For all Mortgage Loans marked for Additional Disclosure in C&D, Fannie Mae will review the Loan Documents and data submitted and determine

- if Additional Disclosure is required, and
- the final disclosure language.
If Fannie Mae determines Additional Disclosure is...

<table>
<thead>
<tr>
<th>Not required</th>
<th>Fannie Mae will issue...</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The standard Multifamily MBS Prospectus.</td>
</tr>
<tr>
<td>Required</td>
<td>Additional Disclosure, and may use information you provided in</td>
</tr>
<tr>
<td></td>
<td>• an Addendum to the Multifamily MBS Prospectus, or</td>
</tr>
<tr>
<td></td>
<td>• a footnote on the Annex A.</td>
</tr>
</tbody>
</table>

Fannie Mae will post the Multifamily MBS Prospectus on DUS Disclose at least 2 Business Days before the MBS Book-Entry Date.

| 504.03 Disclosure Obligations |

**Requirements**

You must ensure that all information in the Multifamily MBS Prospectus, including any Additional Disclosure Addendum or footnote to Annex A, is complete and accurate.

**Operating Procedures**

You must:

- Review the Multifamily MBS Prospectus, including any applicable Additional Disclosure in any Addendum to the Prospectus and/or footnote to the Annex A.
- Notify Fannie Mae of any inaccuracies before the Book-Entry Date.
- Certify to the completeness of the Multifamily MBS Prospectus Fannie Mae issues.
- Comply with all
  - applicable federal and state securities laws, and
Requirements

If the Mortgage Loan is funded under an ASAP Option, you must comply with the ASAP Contract.
Chapter 6  Structured Transactions

Section 601  Registration

☐ Requirements

Using your Negotiated Seller Number, you must register each Structured Transaction in
- DUS Gateway, and
- MSFMS per the MSFMS Job Aid.

Section 602  Approval

602.01 Approval Documents

☐ Operating Procedures

Fannie Mae will issue a Structured Transaction Approval outlining the terms and conditions governing the Structured Transaction including pricing and certain fees.

602.02 Expiration Dates

☐ Operating Procedures

You must contact the Fannie Mae Deal Team to modify any expiration date in the Structured Transaction Approval.

602.03 Fees

☐ Operating Procedures

The Structured Transaction Approval outlines all fees and payment due dates.

By each payment due date you must
- wire the fee to Fannie Mae, or
- have it drafted, if instructed by Fannie Mae.

602.04 Rate Lock

☐ Operating Procedures
You must obtain a Rate Lock for the Structured Transaction per Part IV, Chapter 2: Rate Lock and Committing and the Structured Transaction Approval.

602.05 Loan Documents

- **Operating Procedures**

  The Fannie Mae Deal Team will give you the name and contact information for your assigned internal and outside counsel.

  Fannie Mae’s outside counsel will prepare all Structured Transaction Loan Documents.

Section 603 Commitment

603.01 MBS Mortgage Loans

- **Operating Procedures**

  MBS Mortgage Loans in Structured Transactions are managed in MSFMS, no Commitment is required.

603.02 Cash Mortgage Loans

- **Requirements**

  For Cash Mortgage Loans in a Structured Transaction, you must obtain a Commitment through C&D per Part IV, Chapter 2: Rate Lock and Committing, except for the following entries:

<table>
<thead>
<tr>
<th>C&amp;D Page</th>
<th>Entry</th>
</tr>
</thead>
</table>
| Commitment | • Select Structured as the Delivery Channel Type.  
             • Enter the MSFMS Deal ID in the Structured Facility Management Deal ID field. |
| Participants | • Enter at least 1 Borrower record.  
                   • Enter complete data for all deal participants separately in MSFMS. |
| Collateral | None, this information is entered in MSFMS. |

Section 604 Delivery

604.01 Delivery Process
**Requirements**

You must complete all 5 steps and submit all required data and documents by 5:00 p.m. Eastern Time, no later than 10 Business Days before (and not including) the

- purchase date for Cash Mortgage Loans, or
- Book-Entry Date for MBS Mortgage Loans.

To Deliver the Structured Transaction, comply with the MSFMS Job Aid and follow these 5 steps in order:

**Step 1:** Submit Deal Participant and Collateral Data.

**Step 2:** Deliver Property and Underwriting Documents.

**Step 3:** Submit SARM Loan Interest Rate Cap Data.

**Step 4:** Submit Pool and Mortgage Loan Data.

**Step 5:** Deliver Executed Structured Transaction Loan Documents.

**Operating Procedures**

<table>
<thead>
<tr>
<th>Step</th>
<th>You must...</th>
</tr>
</thead>
</table>
| 1    | Submit all required deal participant and collateral data in MSFMS. On the:  
  • Deal Participant page, submit data for each  
    - Borrower,  
    - Key Principal,  
    - Guarantor,  
    - Sponsor (which may be the same as the Key Principal), and  
    - Principal; and  
  • Collateral page, submit data for each Property, including the rent roll. |
| 2    | Deliver Property and Underwriting Documents in Folder II via DUS DocWay per Part IV, Chapter 4: Delivery, Section 402: Submission when you submit deal participant and collateral data in MSFMS (Step 1).  
  Submit any SARM Loan Interest Rate Cap Data in MSFMS. |
<table>
<thead>
<tr>
<th>Step</th>
<th>You must...</th>
</tr>
</thead>
</table>
| 4    | Submit Pool and Mortgage Loan Data:  
• For each MBS Mortgage Loan you must:  
  - Create an MBS Pool in MSFMS. MSFMS will assign a Fannie Mae Pool Number and CUSIP number that uniquely identifies the MBS Pool for book-entry purposes.  
  - Complete the necessary fields on the MSFMS pool and loan pages.  
  - Comply with Part IV, Chapter 4: Delivery, Section 405.01: Acceptability and Delivery Tolerance for the Mortgage Loans first scheduled monthly payment date.  
  - Ensure your MSFMS submission includes  
    • complete and accurate wiring instructions for the Security, and  
    • the correct amount to be wired.  
  - Address all MSFMS system business rules by validating the data to identify any errors or discrepancies between the entered data and the allowable terms.  
• For a Cash Mortgage Loan, you must:  
  - Comply with Part IV, Chapter 5: Purchase unless this Chapter specifies otherwise.  
  - Submit the required data in C&D.  
  - Comply with Part IV, Chapter 4: Delivery, except you must not complete the:  
    • Collateral page - enter all property, underwriting, and rent roll data in MSFMS; or  
    • hedge tab - enter cap data into MSFMS.  
• Include the Fannie Mae payee code for your Cash Mortgage Loan proceeds. |
| 5    | Coordinate with your counsel and Fannie Maes outside counsel to timely Deliver  
• individual transactions, and  
• fully executed Structured Transaction Loan Documents. |
On the Book-Entry Date, Fannie Mae will electronically issue and deliver the MBS through the Federal Reserve book-entry system using

- 1 of the delivery scenarios per Part IV, Chapter 5: Purchase, Section 503: Third Party MBS Investor Delivery Scenarios, and
- your wiring instructions.

You cannot change the wiring instructions in MSFMS after the MBS has been submitted for securitization.

### 604.02 MSFMS Data Errors

#### Operating Procedures

To address MSFMS errors:

<table>
<thead>
<tr>
<th>Timing</th>
<th>Action</th>
</tr>
</thead>
</table>
| **Before Submission** | If you believe  
  - the data is correct, or  
  - a message is related to information Fannie Mae approved,  
    - select the submit for review system status, and  
    - explain the issue. |
|                     | Multifamily Structured Acquisitions will review the submission and will  
  - override the error, or  
  - return it to you to revise and resubmit with a submitted status. |
| **After Submission** | Email Multifamily Structured Acquisitions with the subject line Deal Name MSFMS Data Change Request, if you  
  - made an error, or  
  - believe the data is incorrect after the MSFMS status is submitted. |

### Section 605

#### MBS Disclosure

#### Operating Procedures
MSFMS automatically flags all MBS in Structured Transactions for Additional Disclosure. You must disclose all required information per Part IV, Chapter 5: Purchase, Section 504: MBS Mortgage Loan Disclosure.

**Section 606  Features and Activities**

<table>
<thead>
<tr>
<th>Activity</th>
<th>You must...</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Collateral Addition:</strong></td>
<td><strong>Addition:</strong> adding new collateral to an existing Structured Transaction</td>
<td><strong>Step 1:</strong> Fannie Mae Deal Team will</td>
</tr>
<tr>
<td></td>
<td>Submit a request to the Fannie Mae Deal Team.</td>
<td>• determine if the Property addition complies with the Structured Transaction Loan Documents, and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• send you a response.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Step 2:</strong> If you receive a Structured Transaction Approval, you must</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• comply with Part IV, Chapter 6: Structured Transactions, Section 604: Delivery, and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• pay any applicable fees per the Structured Transaction Loan Documents or the Structured Transaction Approval.</td>
</tr>
<tr>
<td>Features and Activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Activity</strong></td>
<td><strong>You must...</strong></td>
<td><strong>Process</strong></td>
</tr>
<tr>
<td><strong>Collateral Release:</strong></td>
<td><strong>Submit a request to Multifamily Structured Asset</strong></td>
<td><strong>Step 1:</strong> Multifamily Structured Asset Management will</td>
</tr>
<tr>
<td>releasing collateral from an existing Structured Transaction</td>
<td><strong>Management per Part V, Chapter 4: Asset Management:</strong></td>
<td>• determine if the Property release complies with the Structured Transaction Loan Documents, and</td>
</tr>
<tr>
<td></td>
<td><strong>Loan Document Administration, Section 416:</strong></td>
<td>• send you a response.</td>
</tr>
<tr>
<td></td>
<td><strong>Credit Facilities and Bulk Deliveries.</strong></td>
<td><strong>Step 2:</strong> If you receive a Structured Transaction Approval, you must:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• change the MSFMS collateral status to release requested;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• pay any applicable fees per the Structured Transaction Loan Documents or the Structured Transaction Approval within 1 Business Day after closing and releasing the collateral; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• notify Multifamily Structured Asset Management and Multifamily Structured Acquisitions if you need to change the release date.</td>
</tr>
</tbody>
</table>
### Features and Activities

<table>
<thead>
<tr>
<th>Activity</th>
<th>You must...</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Collateral Substitution:</strong> adding and releasing collateral in an existing Structured Transaction</td>
<td>Submit a request to Multifamily Structured Asset Management per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 416: Credit Facilities and Bulk Deliveries.</td>
<td><strong>Step 1:</strong> Fannie Mae Deal Team will • determine if the Property substitution complies with the Structured Transaction Loan Documents, and • send you a response. <strong>Step 2:</strong> If you receive a Structured Transaction Approval, you must comply with both the Collateral Addition and Collateral Release processes in this table. <strong>Step 3:</strong> If Fannie Mae permits a delayed substitution per the Structured Transaction Loan Documents, you must: • Provide acceptable substitute collateral (such as cash, a Letter of Credit, or other permitted replacement collateral per the Structured Transaction Loan Documents). • Add the substitute collateral within 90 days or other approved timeframe per the Structured Transaction Approval or the Structured Transaction Loan Documents.</td>
</tr>
<tr>
<td><strong>Conversion to Fixed Rate:</strong> converting an ARM Mortgage Loan to a fixed rate Mortgage Loan</td>
<td>Submit a request to Multifamily Structured Asset Management.</td>
<td>If Fannie Mae approves the conversion, you must comply with Part IV, Chapter 7: Variable Rate Conversions and Renewals.</td>
</tr>
</tbody>
</table>
## Features and Activities

<table>
<thead>
<tr>
<th>Activity</th>
<th>You must...</th>
<th>Process</th>
</tr>
</thead>
</table>
| **Borrow-Up:** funding additional loan proceeds without adding collateral | Submit a request to Multifamily Structured Asset Management per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 416: Credit Facilities and Bulk Deliveries. | If Fannie Mae approves the borrow-up, you must  
• comply with Part IV, Chapter 6: Structured Transactions, Section 604: Delivery, and  
• pay any applicable fees. |

## 606.02 Asset Management Activities

### Operating Procedures

Per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 416: Credit Facilities and Bulk Deliveries, for certain asset management activities you may need to deliver documents or data to Fannie Mae. To complete these activities:

<table>
<thead>
<tr>
<th>Asset Management Activities</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivering new or modified Structured Transaction Loan Documents</td>
<td>Comply with Part IV, Chapter 6: Structured Transactions, Section 604: Delivery.</td>
</tr>
<tr>
<td>Processing any Transfer/Assumption</td>
<td>Submit new deal participant data per Part IV, Chapter 6: Structured Transactions, Section 604.01: Delivery Process.</td>
</tr>
</tbody>
</table>
### Asset Management Activities

<table>
<thead>
<tr>
<th>Activity</th>
<th>You must...</th>
</tr>
</thead>
</table>
| Renewing, replacing, or modifying an Interest Rate Cap                  | • Enter the new data in MSFMS per Part IV, Chapter 6: Structured Transactions, Section 604.01: Delivery Process.  
  • Comply with the terms and conditions per the Structured Transaction Approval. |
| Performing any other activities for a Structured Transaction            | • Contact Multifamily Structured Acquisitions.  
  • Comply with the terms and conditions per the Structured Transaction Approval. |
Chapter 7 Variable Rate Conversions and Renewals

Section 701 Conversion Process

Requirements

For a Mortgage Loan originated using Fannie Mae form Loan Documents that automatically converts to a variable rate or a fixed rate per the Loan Documents, you must comply with the Loan Documents.

For a Mortgage Loan originated using non-Fannie Mae form Loan Documents with a conversion option or other interest rate change (automatic or otherwise), you must

- comply with the Loan Documents, and
- contact Multifamily Acquisitions.

You must use the following table to determine the conversion process.

<table>
<thead>
<tr>
<th>For conversion of...</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>An ARM Loan or a SARM Loan to fixed rate</td>
<td>Comply with this Chapter.</td>
</tr>
<tr>
<td>A variable rate Mortgage Loan in a Structured Transaction to fixed rate</td>
<td>Comply with Part IV, Chapter 2: Rate Lock and Committing.</td>
</tr>
<tr>
<td>A Hybrid ARM Loan to the adjustable rate term</td>
<td>Comply with Part III, Chapter 13: Hybrid Adjustable Rate Mortgage (Hybrid ARM) Loans.</td>
</tr>
<tr>
<td>A variable rate Credit Enhancement Mortgage Loan to fixed rate</td>
<td>Comply with Part III, Chapter 19: Bond Transactions and Credit Enhancement Mortgage Loans.</td>
</tr>
</tbody>
</table>

Guidance

For information about the ARM Loan and SARM Loan conversion process, refer to Frequently Asked Questions (FAQs) Exercising the Fixed Rate Conversion Option for an Adjustable Rate Mortgage Loan (ARM Loan) or a Structured ARM Loan (SARM Loan).

Section 702 ARM Loan and SARM Loan Conversions

702.01 Governing Documents

Requirements
For interest rate conversions, you must comply with the following documents and order of priority:

- Interest Rate Conversion Agreement;
- Loan Documents; and
- this Chapter.

### 702.02 Minimum Conversion Debt Service Ratio

<table>
<thead>
<tr>
<th>To convert...</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Mortgage Loan to a fixed rate</td>
<td>Confirm the Minimum Conversion Debt Service Ratio (per the Interest Rate Conversion Agreement) is met.</td>
</tr>
<tr>
<td>A Supplemental Mortgage Loan to a fixed rate</td>
<td>Confirm the Minimum Conversion Debt Service Ratio is met using the sum of</td>
</tr>
<tr>
<td></td>
<td>• the current annual combined debt service of all Pre-Existing Mortgage Loans (using the maximum interest rate for any variable rate Pre-Existing Mortgage Loan), plus</td>
</tr>
<tr>
<td></td>
<td>• the annual debt service of the converted fixed rate Supplemental Mortgage Loan.</td>
</tr>
</tbody>
</table>

### 702.03 Conversion Criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>DUS Gateway</td>
<td>Enter delegated and non-delegated conversions in DUS Gateway.</td>
</tr>
<tr>
<td>Effective Date</td>
<td>Ensure the conversion is effective on a payment date (i.e., the 1st day of the month).</td>
</tr>
<tr>
<td>Criteria</td>
<td>You must...</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Conversion Timeline</strong></td>
<td>• For an ARM Loan, exercise the conversion</td>
</tr>
<tr>
<td></td>
<td>- after the 1st Loan Year, and</td>
</tr>
<tr>
<td></td>
<td>- up to, and including, the last day of the 5th Loan Year.</td>
</tr>
<tr>
<td></td>
<td>• For a SARM Loan, exercise the conversion</td>
</tr>
<tr>
<td></td>
<td>- after the 1st Loan Year, and</td>
</tr>
<tr>
<td></td>
<td>- up to, and including, the 1st day of the 3rd month before the Maturity</td>
</tr>
<tr>
<td></td>
<td>Date.</td>
</tr>
<tr>
<td><strong>Loan Term</strong></td>
<td>Convert to a fixed rate Mortgage Loan with a loan term</td>
</tr>
<tr>
<td></td>
<td>• greater than or equal to 7 years, and</td>
</tr>
<tr>
<td></td>
<td>• less than or equal to 10 years.</td>
</tr>
<tr>
<td><strong>Underwriting</strong></td>
<td>Underwrite the conversion as follows:</td>
</tr>
<tr>
<td></td>
<td>• Base actual DSCR on the trailing 12-month period</td>
</tr>
<tr>
<td></td>
<td>from the most recent supportable actual operations</td>
</tr>
<tr>
<td></td>
<td>per the Borrowers Property financial statements.</td>
</tr>
<tr>
<td></td>
<td>• Ensure actual DSCR meets the minimum required</td>
</tr>
<tr>
<td></td>
<td>DSCR for a fixed rate Mortgage Loan at the same</td>
</tr>
<tr>
<td></td>
<td>Pricing and Underwriting Tier as the original ARM Loan or SARM Loan.</td>
</tr>
<tr>
<td></td>
<td>• Comply with the Loan Documentation</td>
</tr>
<tr>
<td></td>
<td>Requirements (Form 6000).</td>
</tr>
</tbody>
</table>

### 702.04 Guaranty Fee and Servicing Fee

**Requirements**

You must calculate the Gross Note Rate using the current Guaranty Fee and Servicing Fee for a fixed rate Mortgage Loan in effect at Rate Lock.

### 702.05 Interest-Only

**Requirements**

If an interest-only ARM Loan or SARM Loan converts during the interest-only period and the new loan term is less than the original term, you must ensure
the interest-only period does not carry over, and
fixed rate amortization begins immediately.

Guidance

If an interest-only ARM Loan or SARM Loan converts during the interest-only period and the new loan term is greater than or equal to the original term, you may allow the remaining interest-only period to carry over to the fixed rate Mortgage Loan.

### 702.06 Fixed Rate Amortization

#### Requirements

You must comply with the following table.

<table>
<thead>
<tr>
<th>For ARM Loans and SARM Loans with...</th>
<th>The fixed rate amortization term will be...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-term interest-only</td>
<td>360 months.</td>
</tr>
<tr>
<td>• Partial interest-only or amortization, • a fixed rate term greater than or equal to the original ARM Loan or SARM Loan term, and • a most recent Property condition rating of 1 or 2</td>
<td>360 months.</td>
</tr>
<tr>
<td>Other characteristics</td>
<td>equal to • the original ARM Loan or SARM Loan amortization term (in months), minus • the number of monthly payments (P&amp;I or interest-only) since the Mortgage Loan Origination Date.</td>
</tr>
</tbody>
</table>

### 702.07 Fixed Rate Debt Service Payments

#### Operating Procedures

To calculate the fixed rate monthly P&I payments, you must:

1. Determine the amount required to repay the Mortgage Loan UPB.
2. Divide the amount into equal monthly installments.

3. Include interest accrued at the fixed rate over the amortization term per Part IV, Chapter 7: Variable Rate Conversions and Renewals, Section 702.06: Fixed Rate Amortization.

4. Use a 30/360 interest accrual method, regardless of whether the Mortgage Loan uses a 30/360 or an actual/360 interest accrual method.

### 702.08 Fixed Rate MBS Trade Premium

**Requirements**

For premiums on fixed rate MBS trades, you must comply with the Pricing Memo.

### 702.09 New Property Condition Assessment (PCA)

**Requirements**

You must obtain a new PCA (or a Streamlined PCA per Part III, Chapter 9: Small Mortgage Loans, Section 907.03: PCA) if:

- the conversion extends the term of the ARM Loan or SARM Loan, and
- the Property is not an MAH Property.

You must obtain the PCA by the earlier of:

- the final Loan Year of the ARM Loan or SARM Loan if it had not been converted, or
- Loan Year 10.

### Section 703 Commitment and Delivery

#### 703.01 Rate Lock and Commitment

**Operating Procedures**

When you receive the Borrower’s conversion notice for an ARM Loan or a SARM Loan:

- Perform your standard due diligence before obtaining a Rate Lock.
- Ensure the quoted fixed rate is less than or equal to the maximum fixed rate used to determine Net Cash Flow.
- Rate Lock with the Borrower for the quoted fixed rate by the 10th day of
the month before the Conversion Date.

- Submit your Commitment request in C&D.
- Obtain a confirmed Commitment for the fixed rate Mortgage Loan.

### 703.02 Conversion Delivery

#### 703.02A Deliver Loan Document Amendments

**Operating Procedures**

**Step 1:** Execute and deliver the Rate Conversion Amendment.

- If you have a Limited Power of Attorney with Fannie Mae (per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 403: Execution of Documents by Servicer – Limited Power of Attorney), you must
  - execute the Rate Conversion Amendment as Fannie Mae’s attorney-in-fact, and
  - include the executed document in the Mortgage Loan Delivery Package.

- If you do not have a Limited Power of Attorney, you must
  - obtain the Borrower’s signature,
  - deliver the Rate Conversion Amendment to Multifamily Acquisitions who will execute and retain the original with the Mortgage Loan Delivery Package, and
  - retain the returned, executed copy in your Servicing File.

**Step 2:** Determine if state law requires a Security Instrument amendment for a change in the Mortgage Loan Maturity Date.

If an amendment is needed, you must ensure

- your counsel sends it to Multifamily Acquisitions for execution before closing the conversion, and
- the returned, executed amendment is recorded in the appropriate land records.

#### 703.02B Deliver Mortgage Loan Delivery Package

**Operating Procedures**
**Step 1:** Prepare the Mortgage Loan Delivery Package, including all documents listed in Form 6000 as “Required upon Conversion” for an ARM Loan or a SARM Loan.

**Step 2:** Deliver the Mortgage Loan Delivery Package to Multifamily Certification and Custody

- within 10 days after receiving the confirmed Commitment, and
- by the Delivery deadline.

**Step 3:** Deliver the data and documents per Part IV, Chapter 4: Delivery.

**Step 4:** Upload Form 4662 and relevant underwriting due diligence to DUS DocWay.

---

### 703.03 Conversion Activities

#### Operating Procedures

You must coordinate with Fannie Mae to ensure the following conversion activities occur.

<table>
<thead>
<tr>
<th>You must...</th>
<th>Fannie Mae will...</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Issue a new fixed rate MBS Pool after completing the conversion process.</td>
<td>• Issue the new fixed rate MBS.</td>
</tr>
<tr>
<td>• Deliver the converted fixed rate Mortgage Loan to Fannie Mae under the new confirmed Commitment.</td>
<td>• For a variable rate Cash Mortgage Loan, place it into the MBS trade assignment account.</td>
</tr>
<tr>
<td>• Ensure the MBS trade has a Book-Entry Date no later than:</td>
<td>• Transfer the MBS to the MBS Investor per your instruction on either the 10th or the 17th day of the month (as applicable) of the Conversion Effective Date.</td>
</tr>
<tr>
<td>- the 17th day of the month of the Conversion Effective Date for an MBS ARM Loan or SARM Loan; or</td>
<td>• Deposit the funds from the MBS trade into your applicable P&amp;I Custodial Account.</td>
</tr>
<tr>
<td>- the 10th day of the month of the Conversion Effective Date for a Cash ARM Loan or SARM Loan.</td>
<td></td>
</tr>
</tbody>
</table>

---

### 703.04 Pay Off

#### Requirements

You must confirm, report, and remit funds to pay off the MBS ARM Loan or
SARM Loan.

Operating Procedures

1. Request MBS payoff amount verification by submitting your calculation in the Fannie Mae Payoff Calculator per Part V, Chapter 2: Reporting and Remitting, Section 210: Full Prepayments.

2. Send the payoff amount to Fannie Mae per the standard monthly remittance process in Part V, Chapter 2: Reporting and Remitting.

3. For an MBS ARM Loan or SARM Loan,
   - report a $0 balance for the MBS on the 1st or 2nd day of the month in which the Conversion Effective Date occurs, and
   - Fannie Mae will draft the funds due to the MBS Investor.

Section 704 ARM 5/5 Optional 5-Year Adjustable Rate Term Renewal

704.01 Eligibility

Operating Procedures

To renew an ARM 5/5 Loan for a second 5-year adjustable rate term:

<table>
<thead>
<tr>
<th>Timing before the initial Maturity Date</th>
<th>You must...</th>
</tr>
</thead>
</table>
| At least 180 days                      | • Notify Multifamily Asset Management that the ARM 5/5 Loan will be renewed for the second 5-year adjustable rate term.  
                                         | • Confirm the ARM 5/5 Loan complies with Part III, Chapter 11: Adjustable Rate Mortgage (ARM) Loans, Section 1104: ARM 5/5 Loan Optional 5-Year Adjustable Rate Term Renewal Eligibility.  
                                         | • Include preliminary DSCR and LTV calculations.  
                                         | • Estimate the starting interest rate for the second 5-year adjustable rate term, including the new Investor spread. |
Timing before the initial Maturity Date | You must...
--- | ---
At least 30 days | Provide Multifamily Asset Management with:
- an updated ARM 5/5 Loan eligibility confirmation;
- current DSCR and LTV calculations; and
- an estimate of the starting interest rate for the second 5-year adjustable rate term, including the new Investor spread.

### 704.02 Underwriting

- **Requirements**

  If an ARM 5/5 Loan is renewed for an additional 5 years, you must:
  - Use the same Guaranty Fee and Servicing Fee as the first 5-year adjustable rate term.
  - Adjust the Investor spread for the second 5-year adjustable rate term based on current market conditions.
  - Adjust the monthly Replacement Reserve deposit to include required capital improvements during Loan Years 6 through 10, plus 2 additional years, per the original PCA Report.
  - Not charge a Prepayment Premium.

### 704.03 Prepayment Terms

- **Requirements**

  If an ARM 5/5 Loan is renewed for an additional 5 years:
  - no voluntary prepayment will be permitted during the 6th Loan Year (i.e., the 1st Loan Year of the second 5-year adjustable rate term); and
  - the ARM Loan may be prepaid after the 6th Loan Year with a 1% Prepayment Premium, but no Prepayment Premium is due
    - during the last 3 months of the loan term, or
    - if the ARM Loan converts to a fixed rate Mortgage Loan.

The following table describes various situations and the applicable prepayment provisions for the second 5-year adjustable rate term for an
ARM 5/5 Loan; see Part V, Chapter 2: Reporting and Remitting, Section 213: Prepayment Premium Sharing for Prepayment Premium calculations and sharing between you and Fannie Mae.

<table>
<thead>
<tr>
<th>Situation</th>
<th>Prepayment Provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARM 5/5 Loan is renewed for a second 5-year adjustable rate term.</td>
<td>Borrower does not owe a Prepayment Premium.</td>
</tr>
<tr>
<td>Borrower attempts to make a voluntary prepayment during the 6th Loan Year.</td>
<td>Borrower may not make a voluntary prepayment during the 6th Loan Year (i.e., a voluntary prepayment is locked out).</td>
</tr>
<tr>
<td>ARM 5/5 Loan converts to a fixed rate Mortgage Loan after the 6th Loan Year.</td>
<td>Borrower does not owe a Prepayment Premium.</td>
</tr>
<tr>
<td>Borrower makes a voluntary prepayment after the 6th Loan Year and before</td>
<td>Borrower owes a Prepayment Premium.</td>
</tr>
<tr>
<td>the 3 months prior to the extended Maturity Date for any reason other than</td>
<td></td>
</tr>
<tr>
<td>a casualty or condemnation.</td>
<td></td>
</tr>
</tbody>
</table>
Chapter 8 Bond Transactions and Credit Enhancement Mortgage Loans

Section 801 Credit Enhancement Mortgage Loan Committing and Delivery

### 801.01 Pre-Commitment

- **Requirements**
  
  Before you request a Credit Enhancement Mortgage Loan Commitment, you must ensure:
  
  - the criteria for mailing the POS were met;
  - the Good Faith Deposit was collected;
  - the Bonds were priced; and
  - any Credit Enhancement Commitment Letter was executed and delivered to Fannie Mae.

### 801.02 Preliminary Official Statement

- **Operating Procedures**
  
  For publicly offered transactions, to prepare the POS you must ensure the Bond underwriter receives:
  
  - the Credit Enhancement Mortgage Loan information; and
  - for an MBS for Bonds, the MBS Prospectus Supplement narrative, including
    - any applicable Taxable Tail Subordinate Loan information, and
    - an electronic link to the Multifamily MBS Prospectus template.

  Before the POS is mailed:
<table>
<thead>
<tr>
<th>Steps</th>
<th>You must ensure...</th>
</tr>
</thead>
</table>
| 1     | The following documents are in substantially final form, with no open business issues:  
- Bond documents;  
- Loan Documents;  
- any Credit Enhancement Instrument;  
- any Reimbursement Agreement;  
- any credit enhancement documents;  
- Interest Rate Cap documents for variable rate Bonds;  
- any other transaction documents; and  
- all legal opinions. |
| 2     | You received all required Fannie Mae and third-party approvals. |
| 3     | You and your counsel reviewed and approved the following, ensuring they comply with the Guide and any Credit Enhancement Commitment Letter:  
- title commitment or pro forma title policy for the Property;  
- survey;  
- any Affordable Regulatory Agreement;  
- any Subordinate Loan documentation; and  
- any Subordination Agreement. |
| 4     | You are unaware, after reasonable due diligence, of any matters preventing Delivery of the Credit Enhancement Mortgage Loan and applicable Credit Enhancement Instrument or MBS. |
| 5     | The Bond Issuer approved the Bond issuance through its final Bond resolution. |
| 6     | The rating agency confirmed it has no significant concerns with the  
- Bond documents,  
- Loan Documents,  
- any Credit Enhancement Instrument,  
- related documents, or  
- applicable MBS. |
<table>
<thead>
<tr>
<th>Steps</th>
<th>You must ensure...</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>The Borrower met the conditions for mailing the POS in the Borrower Commitment and any applicable Credit Enhancement Commitment Letter.</td>
</tr>
<tr>
<td>8</td>
<td>Either:</td>
</tr>
<tr>
<td></td>
<td>• for a Credit Enhancement Instrument, you accept the Credit Enhancement Commitment Letter as being in substantially final form, with no open business issues; or</td>
</tr>
<tr>
<td></td>
<td>• for an MBS for Bonds, the Fannie Mae Deal Team provides written authorization.</td>
</tr>
<tr>
<td>9</td>
<td>Fannie Mae's counsel is satisfied with all final changes to the POS, including the typeset cover.</td>
</tr>
<tr>
<td>10</td>
<td>If Fannie Mae is a LIHTC investor:</td>
</tr>
<tr>
<td></td>
<td>• you provided Fannie Mae with all required information and documentation per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 710.02: Fannie Mae Credit-Enhanced Tax-Exempt Bond Issuance;</td>
</tr>
<tr>
<td></td>
<td>• Bond counsel confirmed you resolved any tax issues concerning Fannie Maes investment in the Borrower's equity; and</td>
</tr>
<tr>
<td></td>
<td>• any LIHTC Agreement is in substantially final form, with no open business issues.</td>
</tr>
</tbody>
</table>

### 801.03 Good Faith Deposit

**☑️ Requirements**

Before obtaining a Credit Enhancement Mortgage Loan Commitment, you must collect the Minimum Good Faith Deposit from the Borrower per Part IV, Chapter 2: Rate Lock and Committing, Section 203.02: Minimum Good Faith Deposit.

You must hold and refund the Good Faith Deposit per Part IV, Chapter 2: Rate Lock and Committing, Section 203.03: Good Faith Deposit and Breakage Fees.

If you fail to Deliver a Credit Enhancement Mortgage Loan that complies with this Chapter, you will be

- in default under the Commitment, and
801.04  Rate Lock

**Guidance**

For Credit Enhancement Mortgage Loans, the interest rate is determined at Bond pricing.

At Bond pricing, the Bond Issuer and Bond underwriter or direct purchaser execute a Bond Purchase Agreement, setting the terms for the Bond underwriter or direct purchaser to purchase the Bonds on the issue date.

**Operating Procedures**

<table>
<thead>
<tr>
<th>Timing</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>At Bond pricing</td>
<td>Bond underwriter provides you the Bond interest rate, equaling:</td>
</tr>
<tr>
<td></td>
<td>• the Gross Note Rate on the</td>
</tr>
<tr>
<td></td>
<td>- Multifamily Bond Note, for a Credit Enhancement Instrument, or</td>
</tr>
<tr>
<td></td>
<td>- Note, for an MBS for Bonds;</td>
</tr>
<tr>
<td></td>
<td>• minus the sum of:</td>
</tr>
<tr>
<td></td>
<td>- the applicable Credit Enhancement Fee or Guaranty Fee;</td>
</tr>
<tr>
<td></td>
<td>- Servicing Fee;</td>
</tr>
<tr>
<td></td>
<td>- any applicable PRF fee; and</td>
</tr>
<tr>
<td></td>
<td>- for a Credit Enhancement Instrument, the Bond Issuer fee.</td>
</tr>
<tr>
<td>Timing</td>
<td>Activity</td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Before Bond Purchase Agreement is executed</td>
<td>You must:&lt;br&gt;• review the Bond underwriters pricing information;&lt;br&gt;• confirm, for any 12-month period, the actual maximum annual debt service on the Bond debt service schedule is less than or equal to the underwritten maximum annual debt service;&lt;br&gt;• create a monthly payment schedule to be attached to the Note that, for each 12-month period, aggregates the exact amount of the Bond payments (plus any fees); and&lt;br&gt;• for an MBS for Bonds:&lt;br&gt;  - confirm the Bond terms match the Credit Enhancement Mortgage Loan pass-through payments; and&lt;br&gt;  - if the actual maximum annual debt service is greater than the underwritten maximum annual debt service, then&lt;br&gt;    • reduce the actual Credit Enhancement Mortgage Loan amount (and corresponding Bond principal amount), and&lt;br&gt;    • the Borrower must identify a new financing source, acceptable to all parties, for the amount of the reduction in the Credit Enhancement Mortgage Loan amount.</td>
</tr>
<tr>
<td>After Bond Purchase Agreement is executed</td>
<td>For a Credit Enhancement Instrument, you must receive the Credit Enhancement Commitment Letter executed by Fannie Mae and submit a fully executed copy via DUS Gateway.</td>
</tr>
</tbody>
</table>

**801.05 Commitment**

*Operating Procedures*

<table>
<thead>
<tr>
<th>Steps</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Submit a Commitment request for the Credit Enhancement Mortgage Loan through C&amp;D within 24 hours after the Bond Purchase Agreement is executed.</td>
</tr>
</tbody>
</table>
### Section 802 Data and Document Delivery

#### 802.01 Credit Enhancement Mortgage Loans

- **Requirements**

For all Credit Enhancement Mortgage Loans, you must:

<table>
<thead>
<tr>
<th>Steps</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Ensure the Commitment reflects the</td>
</tr>
<tr>
<td></td>
<td>• Bond interest rate (for an MBS for Bonds, the Bond</td>
</tr>
<tr>
<td></td>
<td>interest rate equals the MBS Pass-Through Rate),</td>
</tr>
<tr>
<td></td>
<td>• term sheet attached to the Official Statement, and</td>
</tr>
<tr>
<td></td>
<td>• Credit Enhancement Commitment Letter terms, for a</td>
</tr>
<tr>
<td></td>
<td>Credit Enhancement Instrument.</td>
</tr>
<tr>
<td>3</td>
<td>Enter all information into C&amp;D per the screen instructions</td>
</tr>
<tr>
<td>4</td>
<td>Coordinate with Multifamily Acquisitions to resolve any</td>
</tr>
<tr>
<td></td>
<td>submission problems or discrepancies.</td>
</tr>
<tr>
<td>Credit Enhancement Form</td>
<td>Data Submission and Document Delivery</td>
</tr>
<tr>
<td>-------------------------</td>
<td>----------------------------------------</td>
</tr>
</tbody>
</table>
| Credit Enhancement Instrument | Submit the  
• delivery data in C&D per Part IV, Chapter 4: Delivery, and  
• applicable data on the Bond, Loan, Borrower, and Property pages in C&D within 3 Business Days after the Bond closing.  
Deliver the Mortgage Loan Delivery Package  
• in electronic form within 3 Business Days after the Mortgage Loan closing (not including the closing date), and  
• in physical form by the earlier of  
  - 10 Business Days after the Mortgage Loan closing (not including the closing date), or  
  - the last day of the month of the Bond closing.  
| MBS for Bonds | • Submit all data, including the MBS Pool Information, in C&D per Part IV, Chapter 4: Delivery.  
• Enter Special Feature Code 832.  
• Deliver the Mortgage Loan Delivery Package per Part IV, Chapter 4: Delivery. |

**802.02 Interest Rate Cap**

✅ Requirements

You must deliver Interest Rate Cap information when you Deliver the Mortgage Loan in C&D.

 (~(Operating Procedures)~

When delivering Interest Rate Cap information:

- Enter data in the “Hedges” tab in C&D.
Upload the Interest Rate Hedge Entry (Form 4643) into CESIR.
Part V
Servicing and Asset Management

Chapter 1
Servicing

Section 101
Generally

101.01 Relationship

Requirements

You must service all Portfolio Mortgage Loans on Fannie Mae’s behalf per the Guide.

101.02 Standard

Requirements

You must:

- always protect Fannie Mae’s interest in the Mortgage Loan;
- collect all amounts due from the Borrower for Fannie Mae and any MBS Investor;
- service each Mortgage Loan per these documents until your obligations end in the following order of priority:

1. Loan Documents;
2. Disclosure Documents;
3. Lender Contract;
4. Guide; and
5. commercially sound servicing practices and business judgment exercised by prudent institutional servicers for comparable mortgage loans in the Property’s jurisdiction; and

- hold any retained subservicer to this standard.

101.03 Servicing File

Requirements

You must:

- maintain a separate Servicing File for each Mortgage Loan; and
- permit Fannie Mae to periodically examine your Servicing Files.

**Operating Procedures**

The Servicing File must:

1. Per the Multifamily Servicing File Content Requirements (Form 4800), include a copy of all
   - Mortgage Loan origination documents,
   - underwriting documents,
   - Loan Documents, and
   - servicing documents.

2. Fully document your actions for each Mortgage Loan.

3. Be in paper or electronic imaged form.

4. Comply with all record retention requirements per the Program Rules.

**101.04 Loan Document Compliance**

- **Requirements**

   For each Mortgage Loan, you must:
   - monitor the Borrower’s compliance with all Loan Document terms and conditions; and
   - appropriately address noncompliance.

**Section 102 Uniform Commercial Code (UCC) Financing Statements**

**102.01 Filing Documents**

- **Requirements**

   You must maintain Fannie Mae’s first Lien security interest in the Personal Property by filing all necessary UCC financing statements and continuations by the earlier of:
   - the date any outstanding filing lapses; or
   - any applicable jurisdiction filing deadline.

- **Guidance**
For all Mortgage Loans, you should effectively monitor

- UCC financing statements, and
- continuation filing deadlines.

**Operating Procedures**

Each Mortgage Loan Servicing File must include a file-stamped copy of the UCC financing statements filed for the Personal Property, including

- initial filings,
- continuations,
- assignments, and
- other amendments.

### 102.02 UCC Continuations, Amendments, and Terminations

**Operating Procedures**

You are authorized and required to file:

1. All UCC continuation statements in all appropriate jurisdictions.
2. Any UCC financing statement amendments to correct any scrivener’s error.

Unless Fannie Mae granted you a Limited Power of Attorney, you are not authorized to

- sign or file any UCC financing statement amendment other than for a scrivener’s error, or
- terminate any UCC financing statement.

**Guidance**

See Part V, Chapter 4: Asset Management: Loan Document Administration, Section 403: Execution of Documents by Servicer – Limited Power of Attorney for more information.

### Section 103 Letters of Credit

**103.01 Servicing File**
Requirements

You must immediately deliver to Fannie Mae:

- the original Letter of Credit; and
- any new, replacement, or amended Letter of Credit delivered to you.

Operating Procedures

In your Servicing File, you must keep a copy of any

- Letter of Credit, and
- the associated Achievement Agreement or other Collateral Agreement.

103.02 Certification

Operating Procedure

With any new or replacement Letter of Credit, you must

- submit a Borrower Letter of Credit Certification (Form 4664.B), and
- confirm the Letter of Credit complies with Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit.

103.03 Monitoring Expiration Dates

Operating Procedures

You must:

- effectively monitor each Letter of Credit's expiration date; and
- ensure Fannie Mae receives an acceptable renewal or replacement Letter of Credit
  
  - by the deadline per the Achievement Agreement or other Collateral Agreement, or
  
  - if no deadline is specified, at least 5 Business Days before the Letter of Credit expires.

If you do not provide a renewal or replacement Letter of Credit, Fannie Mae will present a sight draft against the expiring Letter of Credit.
103.04 Replacement Letter of Credit

Operating Procedures

You must ensure any replacement Letter of Credit has an expiration date at least 30 days after the applicable Achievement Agreement or other Collateral Agreement expiration date.

103.05 Verifying Issuer Ratings

103.05A Monitoring

Operating Procedures

While each Letter of Credit is outstanding, you must:

- comply with Part I, Chapter 2: Mortgage Loan, Section 204.03: Verifying Issuer Ratings; and
- document each rating verification in your Servicing File.

103.05B Rating Noncompliance

Operating Procedures

<table>
<thead>
<tr>
<th>If the rating of the financial institution issuing or confirming the Letter of Credit does not comply with...</th>
<th>You must...</th>
</tr>
</thead>
</table>
| Part I, Chapter 2: Mortgage Loan, Section 204.02: Issuers and Ratings | Promptly notify Multifamily Business Operations even if the Achievement Agreement or other Collateral Agreement
  • provides different acceptable issuer rating criteria, or
  • does not authorize Fannie Mae to act if the rating falls. |
If the rating of the financial institution issuing or confirming the Letter of Credit does not comply with... | You must...
---|---
Rating criteria in the Achievement Agreement or other Collateral Agreement | • Promptly notify Multifamily Business Operations.
• Require the Borrower to provide a replacement or confirming Letter of Credit from an acceptably rated institution by the:
  - replacement deadline per the Achievement Agreement or Collateral Agreement; or
  - earlier of
    • 30 days after notifying the Borrower, or
    • 5 Business Days before the Letter of Credit expires.

### 103.06 Managing Draws and Releases

#### 103.06A Letter of Credit Draws

**Requirements**

You must promptly notify Multifamily Asset Management and Multifamily Business Operations if a Letter of Credit draw is appropriate.

#### 103.06B Releasing/Reducing Letters of Credit or Other Collateral

**Operating Procedures**

Unless a Mortgage Loan is being fully repaid, you must:

- assess each Borrower request to fully release or partially reduce a Letter of Credit or other collateral;
- submit your recommendation to Multifamily Asset Management; and
- notify the Borrower when each request is approved or denied.

### Section 104 Bond Transactions and Credit Enhancement Mortgage Loans
104.01A Payments

Operating Procedures

Collect all of the following from the Borrower:

- reimbursement of all amounts Fannie Mae paid or is due per any:
  - Credit Enhancement Instrument or MBS for Bonds;
  - Loan Documents or Reimbursement Agreement;
  - Bond Collateral Agreement; and
  - Interest Rate Cap Agreement or other interest rate hedge;
- any Facility Fee and/or Activity Fee for an unreimbursed Liquidity Advance per the Reimbursement Agreement;
- all amounts required to replenish the PRF;
- any Prepayment Premium or other Termination Fee;
- any other fees, expenses, or additional costs due per any
  - Credit Enhancement Instrument or MBS for Bonds,
  - Security Instrument,
  - Reimbursement Agreement, or
  - other Loan Document; and
- any other amounts due Fannie Mae or the Bond Trustee.

<table>
<thead>
<tr>
<th>Steps</th>
<th>Activity...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calculate the Amount Due</td>
<td>After receiving the information to calculate the amount due, you must</td>
</tr>
<tr>
<td></td>
<td>• immediately invoice the Borrower, and</td>
</tr>
<tr>
<td></td>
<td>• remit the funds to the appropriate parties per the Reimbursement Agreement or Loan Documents.</td>
</tr>
<tr>
<td>Steps</td>
<td>Activity...</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Advance Funds Notification</td>
<td>Fannie Mae will notify you of the amount disbursed on or after each disbursement date for any:</td>
</tr>
<tr>
<td></td>
<td>• Credit Enhancement Instrument or MBS for Bonds;</td>
</tr>
<tr>
<td></td>
<td>• Loan Document; or</td>
</tr>
<tr>
<td></td>
<td>• other Bond Collateral Agreement.</td>
</tr>
<tr>
<td>Payment Timing</td>
<td>You must remit all Borrower payments per the Loan Documents or Fannie Mae's instructions.</td>
</tr>
<tr>
<td></td>
<td>If you do not pay Fannie Mae or the Bond Trustee until the next Business Day, you must</td>
</tr>
<tr>
<td></td>
<td>• invest the funds overnight, and</td>
</tr>
<tr>
<td></td>
<td>• remit all investment earnings to Fannie Mae or the Bond Trustee with the payment.</td>
</tr>
<tr>
<td></td>
<td>For Borrower payments received after 4:00 p.m. Eastern Time, you must use your best efforts to invest the funds.</td>
</tr>
</tbody>
</table>

104.01B  Principal Reserve Fund

☑ Requirements

You must ensure no PRF withdrawal occurs without Fannie Mae's approval.

☒ Operating Procedures

For each Credit Enhancement Mortgage Loan, you must:

- Review the Bond Trustee's reported PRF balance.
- Collect from the Borrower any amount withdrawn from the PRF, including withdrawals reimbursing Fannie Mae for amounts it paid per the
  - Credit Enhancement Instrument or MBS for Bonds, or
  - Loan Documents.
104.02 Cash Collateral Agreements

☑ Requirements

You must:

- ensure any control agreement perfecting Fannie Mae’s security interest in pledged collateral remains in full force and effect; and
- not invest, apply, or release any collateral under a Cash Collateral or other Security Agreement.

104.03 UCC Filings

瘘 Operating Procedures

For UCC filings per Loan Documents or Bond documents, you must:

- instruct each Bond Trustee to file UCC continuation statements at least 90 days before the filing expires; and
- confirm the filing occurred before expiration.

104.04 Remarketing Agent Changes

☑ Requirements

For Bond transactions that remarket on scheduled mandatory tender and remarketing dates where Fannie Mae provides Bond liquidity support, you must ensure any new Remarketing Agent complies with Part III, Chapter 19: Bond Transactions and Credit Enhancement Mortgage Loans, Section 1903.02: Remarketing Agent.
Chapter 2 Reporting and Remitting

Section 201 Generally

This Chapter:

- outlines the reporting and account reconciliation policies and procedures for Mortgage Loans;
- applies to both Cash Mortgage Loans and Securitized Mortgage Loans, except where noted that a particular procedure is applicable only to one or the other execution;
- describes the methods for accounting for scheduled monthly payments, payment shortages, additional principal payments, repayments of advances, and payments in full; and
- describes Fannie Mae's remittance requirements, the method for remitting, and the format for reporting Mortgage Loan information on all transactions.

Fannie Mae purchases Mortgage Loans for cash or in exchange for the issuance of a Security. Fannie Mae reserves the right to later place any of the Mortgage Loans purchased for cash into a Security (e.g., PFP MBS). If Fannie Mae securitizes a Mortgage Loan, the Servicer may be required to make certain changes to its reporting and remitting procedures. If such an event occurs and changes to a Servicer's reporting and remitting procedures will be required, Fannie Mae will notify the Servicer in writing.

Fannie Mae reserves the right to modify its Remittance Accounting system and forms to accommodate future changes to its overall systems applicable to Mortgage Loans.

Section 202 Collection, Tracking and Reporting of Monthly P&I Payments and T&I Amounts

The Servicer is responsible for collecting monthly P&I payments from the Borrower in accordance with the terms of the Note executed by the Borrower. All P&I payments and T&I amounts collected by the Servicer in connection with Mortgage Loans must be deposited in the applicable P&I and T&I Custodial Accounts maintained in accordance with the requirements of Part V, Chapter 3: Custodial Accounts.

The Servicer must track and account separately for all P&I payment activity relating to each Mortgage Loan. The Servicer must report to Fannie Mae on the P&I payment activity relating to each Mortgage Loan as provided in this Chapter.

Section 203 Reporting Loan Activity and Security Balance
203.01 Use of Fannie Mae eServicing System

The Servicer must use Fannie Mae’s eServicing System to report Mortgage Loan level information on all Cash Mortgage Loans and Securitized Mortgage Loans. The Servicer must register to use the eServicing System prior to use. Information regarding registering for the eServicing System can be found on https://multifamily.fanniemae.com/applications-technology/eservicing. The Servicer must segregate its Cash Mortgage Loan servicing portfolio from its Securitized Mortgage Loan servicing portfolio for reporting purposes.

203.02 Reporting Specific Transactions

All reportable transactions will fall into one or more categories. Some transactions update the status of a Mortgage Loan or summarize collection activity, while others update the information in Fannie Mae’s records (e.g., Property addresses, Servicer Mortgage Loan identification numbers, Mortgage Loan terms, subservicing status, etc.).

203.03 Monthly Activity Reporting

203.03A When to Begin Reporting

The Servicer must use the eServicing System to report its monthly Mortgage Loan activity to Fannie Mae following the end of each Reporting Period, commencing with the month following the:

- date Fannie Mae acquired the Cash Mortgage Loan or PFP Mortgage Loan; or
- Issue Date for Securitized Mortgage Loans (other than PFP MBS).

203.03B Cutoff Dates for Loan Activity Reporting

The following are the cutoff dates for activity reporting on Mortgage Loans:

<table>
<thead>
<tr>
<th>Monthly Activity Cutoff Date</th>
<th>Monthly Activity Report Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Servicer may establish as its cutoff date any day from the 25th of the month to the last day of the month.</td>
<td>Not later than the second Business Day of the month following the cutoff date for the Reporting Period.</td>
</tr>
</tbody>
</table>

203.04 Monthly Securitized Mortgage Loan Security Balance Reporting

203.04A Reporting Security Balances
For each Security Pool serviced by the Servicer, the Servicer must submit a monthly Security Balance report that references:

- the Security Balance; and
- the Security Pool number.

### 203.04B Same Month Pooling – Security Balance for First Reporting Cycle

For Same Month Pooling Mortgage Loans, the Borrower will have made no payment as the monthly debt service payment will not yet have come due. Because the Servicer’s Security Balance report for the month following the Issue Date of the Security Pool under the Same Month Pooling Delivery option will not include an amount for principal curtailment for amortizing Mortgage Loans, the Servicer must report the Issue Date Principal Balance of the Mortgage Loan as the first reporting cycle Security Balance. As long as the Servicer reports the Issue Date Principal Balance of the Securitized Mortgage Loan in its first Security Balance report, there will be no impact on the Pool-to-Security balance reconciliation for that month.

### 203.04C Security Balances Due by Second Business Day

The Servicer must have transmitted all of its Security Balances (or corrections to balances reported in error) to Fannie Mae by 5:00 p.m. Eastern Time on the second Business Day of each month following the Reporting Period. If the Servicer anticipates a problem in meeting this reporting deadline or has a transmission problem that will result in late reporting, the Servicer must contact its Fannie Mae Representative.

### 203.04D Failure to Meet Reporting Deadline

If the Servicer fails to meet Fannie Mae’s reporting deadline, Fannie Mae may estimate the Servicer’s Security Balances so Fannie Mae can pass-through payments to Investors and publish Security Balances in a timely manner. When Fannie Mae does this, Fannie Mae’s estimate will be both the published Security Balance, and the beginning Security Balance used for the next month’s Security Balance report. Fannie Mae will send the Servicer written notification of any published estimated Security Balance within 10 days after publication by Fannie Mae.

### 203.05 Due Dates for Reports

The exact due date of the Servicer’s submission of its reports depends on the type of transaction being reported.

#### 203.05A Removal Transactions

The Servicer must report removal activity (e.g., payoff, repurchase,
liquidated-held for sale, and liquidated third-party sale/condemnation) by the second Business Day of the month following the cutoff date for the Reporting Period in which the activity occurred. The Servicer may correct any removal activity reporting error by resubmitting the corrected information in time to reach Fannie Mae by the second Business Day of the month following the Reporting Period. If the Servicer is unable to correct the error, the Servicer must notify its Fannie Mae Representative about the error.

203.05B All Other Transactions

The Servicer must make sure that all other transactions (which are the transactions that comprise the bulk of its reports) are transmitted in sufficient time for receipt by Fannie Mae by the second Business Day of the month following the cutoff date for the Reporting Period.

203.06 Mortgage Loan Activity Record

The Loan Activity Record is used to provide Mortgage Loan-level detail of amounts due to Fannie Mae or the Investor for each Mortgage Loan on the Servicer's trial balance.

203.06A Payment Collection

Payment collection relates to the receipt and application of the monthly payment. The information that must be reported includes:

- actual last paid installment ("LPI") date;
- actual UPB; and
- remittance amount (distributed between P&I).

Under the Same Month Pooling option, the Servicer must not report a principal distribution amount for the first reporting cycle following the Issue Date of the Security Pool because no payment will have come due from the Borrower. For the first reporting cycle, the actual UPB of the Mortgage Loan will equal the Issue Date principal balance, as no principal payment will be subtracted from the Security Balance or passed through to the Investor.

203.06B Fee Collection

Fee collection relates to any special fees that were collected from the Borrower during the Reporting Period.

203.06C Mortgage Loan Status

Mortgage Loan status relates to special actions that have occurred (e.g., a payoff or a repurchase). An action code and an action date
(specifying when the reported action occurred or will occur) must be reported. The User Manual for the eServicing System provides detailed information regarding action codes and action dates.

### 203.07 Fannie Mae-Generated Monthly Reports

#### 203.07A MBS Mortgage Loan P&I Draft Report

On approximately the 10th day of the month, reports are available in the eServicing System for Servicers to verify the amount to be drafted on the Remittance Date, including P&I and Prepayment Premiums due to Fannie Mae or the MBS Investor.

#### 203.07B Cash Mortgage Loan P&I Draft Reports

3 Business Days before the Remittance Date, reports are available in the Cash Loan Drafting Application for Servicers to review, update, and certify the amount to be drafted on the Remittance Date, including Prepayment Premiums due to Fannie Mae. Amounts must be reviewed, updated, and certified by 4:30 p.m. ET 1 Business Day before the Remittance Date.

#### 203.07C Month-End Report

By the 23rd day of the month, the Summary of Processed Activity and other reports are available in the eServicing System for the Servicer to reconcile with its internal records.

### 203.08 Monthly MBS Mortgage Loan Reconciliations - Pool-to-Security Balance Reconciliations (Not Applicable to PFP MBS)

#### 203.08A Reconciliation Required

At the end of each Reporting Period, the Servicer must reconcile the actual ending Mortgage Loan balance for the Mortgage Loan in any given Security Pool to the ending Security Balance for that Security Pool. To perform this reconciliation, the Lender must use the following calculation:

<table>
<thead>
<tr>
<th>Function</th>
<th>Ending Principal Balance for the Mortgage Loan in Security Pool (from current month)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PLUS</td>
<td>Prepaid Principal (as of current month)</td>
</tr>
<tr>
<td>MINUS</td>
<td>Delinquent Principal (as of current month)</td>
</tr>
<tr>
<td>MINUS</td>
<td>Scheduled Principal (as of current month)</td>
</tr>
</tbody>
</table>
### 203.08B Rounding Adjustment

Because the total amount of the Mortgage Loan that is issued for a Security Pool is rounded down to the next lowest whole dollar amount of the actual “Issue Date Principal Balance of the Mortgage Loan”, the Security Balance will be smaller than the actual UPB of the Mortgage Loan. The difference will never be greater than $0.99 for a single Security Pool. The Servicer must adjust for this difference in the first monthly accounting report it submits after the Issue Date of the Security, classifying it as an “unscheduled” principal adjustment.

### 203.08C Required Annual Adjustment to Correct Principal Balance vs. Security Balance Difference

Other differences may arise in the reconciliation between the UPB of the Mortgage Loan in a Security Pool and the outstanding Security Balance. These differences cannot exceed more than $0.25 for any Mortgage Loan in the Security Pool. At least once a year, the Servicer must make an adjustment to correct any differences.

1. **If Security Balance is Greater than UPB**

   If the Security Balance is higher than the UPB of the Mortgage Loan, the Servicer must immediately deposit the funds in the “scheduled/scheduled” P&I Custodial Account for Security Pools so that the funds can be passed through to Fannie Mae (as an “unscheduled” principal collection) with the Servicer’s next monthly remittance.

2. **If Security Balance is Lower than UPB**

   If the Security Balance is lower than the UPB of the Mortgage Loan, the Servicer may adjust a subsequent pass-through amount that includes an “unscheduled” principal collection to correct for this difference.

### 203.08D Pool-to-Security Reconciliation Certification

The eServicing System produces a Pool-to-Security Reconciliation on a monthly basis to assist Servicers with review. Servicers are required to review and certify any pool-to-security difference each month by month end. Differences occur when the MBS pool security balance does not match the sum of the scheduled UPB of the Mortgage Loan. Fannie Mae calculates
pool-to-security differences after monthly Mortgage Loan and Security reporting is complete. For each pool with a difference, the Servicer must review the deficiency, research the difference, and determine the appropriate remedy. The Servicer’s certification includes the identification and selection of a deficiency reason, and a statement of how it should be resolved.

Section 204 Calculation of Interest Due

204.01 Generally

Generally the Borrower's monthly payment consists of P&I and deposits for insurance, taxes, replacement reserves and replacement hedges or some combination of such items. In some instances, the payment may include additional funds to be applied toward the UPB or to repay funds advanced by the Servicer. The Servicer must account for each portion of the Borrower's monthly payment in the Servicer's records. The Servicer must track both actual and scheduled Mortgage Loan balances (a.k.a., Security Pool and Security balances) and reconcile any outstanding difference (e.g., the Servicer advances for insufficient Borrower payments).

204.02 Calculating Interest Due

The interest calculation method is generally specified in the Loan Documents. Servicers are required to calculate interest due for each Mortgage Loan as required by the Loan Documents. If the Loan Documents do not contain any information regarding the interest calculation method, then Servicers should assume a 30/360 accrual method.

204.02A Actual/360 Interest Calculation Method

Interest will accrue based upon the actual number of days in a calendar month and a 360-day year.

204.02B 30/360 Interest Calculation Method

Interest will accrue based upon a 30-day month and a 360-day year.

Section 205 ARM Loan Interest Rate and Monthly Payment Changes

205.01 Adjustable Rate Mortgage Loan Interest Rate Changes and Required Monthly Payments

The Servicer must enforce each Mortgage Loan in accordance with the terms of the executed Loan Documents. This includes making periodic interest rate and payment adjustments in connection with any type of Adjustable Rate Mortgage Loans. The Servicer must change the Mortgage
Loan interest rate and monthly payments to the fullest extent permitted or required, maintaining at all times the Mortgage Loan margin specified in the executed Loan Documents. Factors used to determine the new interest rate for ARM Loans include:

- the Index on which the rate is to be based;
- the “look back” period;
- any applicable interest rate change limitations; and
- the Mortgage Loan margin.

If the Servicer fails to make a timely interest rate or payment adjustment, the Servicer must use its own funds to satisfy any shortage.

205.01A  The Adjustable Rate Mortgage Loan Index

The Servicer must determine the Index on which the rate is to be based as specified in the Loan Documents. To assist the Servicer in monitoring indexes, Fannie Mae offers an ARM Loan Index service through its website on https://multifamily.fanniemae.com. The Servicer must establish procedures to monitor the Index to assure that the Servicer uses the latest available Index to determine an interest rate change.

205.01B  Determining the New Monthly Payment

Except for Fannie Mae Structured ARM Loans, a Required Monthly Payment change occurs at established intervals and corresponds to any change in the interest rate. The new monthly payment is calculated by determining the amount required to repay the UPB of the Mortgage Loan in substantially equal payments over the remaining amortization period of the Mortgage Loan at the interest rate in effect following the latest interest rate change utilizing the applicable Interest Calculation Method. If the Mortgage Loan is an interest-only Mortgage Loan, the new monthly payment is the monthly interest payment at the interest rate in effect following the latest interest rate change utilizing the applicable Interest Calculation Method. The new Required Monthly Payment becomes effective on the first day of the month following the month in which the interest Rate Change Date occurs.

205.02  Monthly Reporting for ARM Loan Payment/Rate Changes

Prior to the effective date of the Monthly Payment/Rate Change the Servicer must submit a Monthly Payment/Rate Change via the eServicing System. For assistance with rate and/or payment changes, the Servicer must contact its Fannie Mae Representative.

In order for Fannie Mae to account for ARM Loans on its books, Fannie Mae must receive the Monthly Payment/Rate Change on a timely basis.
Structured ARM Loans are subject to the same reporting and remittance requirements as other ARM Loans except for the differences described in this section.

The interest rate for Structured ARM Loans will be determined based on the applicable interest period (typically either 1-month or 3-months) for the applicable Index using a 1-Business Day look-back period per the Loan Documents and the requirements of the applicable Structured ARM Loan Plan Number. The applicable interest rate will be determined by adding the Mortgage Loan margin specified in the Loan Documents to the applicable Index value. No periodic or lifetime interest rate limitations apply to this computation.

Rate changes for Structured ARM Loans with a:

- 1-month interest period (Plan Numbers 03488 and 04932) will occur on the first payment date and the first day of each month thereafter until maturity as specified in the Loan Documents; and

- 3-month interest period (Plan Number 03487) will occur on the first day of the month which is the second month following the first payment date and the first day of every third month thereafter until maturity as specified in the Loan Documents.

The first payment date will be:

- the 1st day of the month following the Mortgage Loan Origination Date, if the Mortgage Loan Origination Date is the 1st calendar day of the month; or

- the 1st day of the second full calendar month following the Mortgage Loan Origination Date for all other Mortgage Loans.

For example, if the Mortgage Loan closes on June 15th, the First Payment Date is on August 1st, and if the Mortgage Loan closes on June 1st, the First Payment Date is on July 1st.

A Required Monthly Payment change occurs at established intervals and corresponds to any change in the interest rate, the number of days in an accrual period, or the UPB of the Mortgage Loan.

If the Mortgage Loan amortizes, the Required Monthly Payment is the sum of the monthly interest installment and the monthly principal installment. The monthly interest installment is calculated by multiplying the UPB of the Mortgage Loan by the interest rate in effect following the latest interest rate change utilizing an actual/360 interest accrual method. Equal monthly principal installments will be made over the term of the Mortgage Loan in the amount set forth in the Loan Documents.
If the Structured ARM Loan is interest-only, the Required Monthly Payment is the monthly interest payment which is calculated by multiplying the UPB of the Mortgage Loan by the interest rate in effect following the latest interest rate change utilizing an actual/360 interest accrual method as set forth in the Loan Documents. The new Required Monthly Payment becomes effective for Structured ARM Loans with a:

- 1-month interest period (Plan Numbers 03488 and 04932), on the 1st day of the month following the month in which the Rate Change Date occurs; or
- 3-month interest period (Plan Number 03487), on the 1st day of each month following any change in the interest rate or if the number of days in an accrual period is different from the prior month, as set forth in the Loan Documents.

### Section 206 Application of Monthly Payments

#### 206.01 Fannie Mae Form Loan Documents

For Mortgage Loans originated using Fannie Mae published Note forms, the Borrower’s monthly payments must be applied in the following order:

- any delinquent interest (other than interest attributable to the default interest rate);
- any delinquent principal;
- interest for the current month at the Gross Note Rate;
- principal for the current month;
- reimburse the Servicer or Fannie Mae for any T&I payments;
- reimburse the Servicer or Fannie Mae for any delinquency resolution costs, attorney fees, Appraisal fees, environmental assessment costs, or PCA costs;
- reimburse the Servicer or Fannie Mae for any payments to protect the Property;
- late charges;
- default interest;
- T&I Custodial Account deposits; and
- Collateral Agreement Custodial Account deposits.

#### 206.02 Non-Fannie Mae Form Loan Documents
For Mortgage Loans not originated using Fannie Mae published Note forms, the Servicer must apply monthly payments received from the Borrower as required by the relevant Loan Documents. If the Loans Documents do not provide for the order of application of monthly payments, then the Servicer must follow the requirements for the Fannie Mae Post-1998 Loan Documents as provided in Part V, Chapter 2: Reporting and Remitting, Section 206.01: Fannie Mae Form Loan Documents.

Section 207  Payment Shortages

When payments received from the Borrower are less than the total amount then due under the Mortgage Loan (including P&I and T&I, but may also include required deposits to the Replacement Reserve or other monies due as required in the Loan Documents), the Mortgage Loan is in default and the Servicer must follow the default procedures specified in Part V, Chapter 7: Non-Performing Mortgage Loans.

The Servicer may not supplement partial payments received from the Borrower with funds from any Collateral Agreement Custodial Account without Fannie Mae's prior written consent.

Section 208  Delinquency and Servicing Advances

208.01 Generally

208.01A Applicability

This Section 208 shall apply to all loans purchased by Fannie Mae (i) under the DUS product line and (ii) under any contracts entered into after June 1, 2012, unless any such contract provides that this Section 208 shall not apply to such contract.

208.01B Delinquency Advances on a Mortgage Loan other than a Credit Enhancement Mortgage Loan

Whether or not the Borrower pays to the Lender the full amount due under a Mortgage Loan (other than a Credit Enhancement Mortgage Loan), the Lender will remit to Fannie Mae Delinquency Advances in an amount equal to all monthly P&I installments then owed under each Mortgage Loan, net of Servicing Fees, in the manner and at the time the Lender is required to make remittances under the Guide or the Lender’s Contract. The Lender’s agreement to make Delinquency Advances in respect of a Mortgage Loan constitutes a separate contractual obligation of the Lender to Fannie Mae and is not a guaranty or surety of any obligation of the related Borrower. The Lender’s obligation to fund Delinquency Advances, except in the case of Secondary Risk Mortgage Loans, is not intended to require advances of the principal balance due on the scheduled or accelerated maturity date for payment in full of a Mortgage Loan. The
Lender’s obligation to fund Delinquency Advances with respect to Secondary Risk Mortgage Loans shall include the obligation to fund the principal balance due on the scheduled or accelerated maturity date for payment in full of a Mortgage Loan.

208.01C Delinquency Advances on a Credit Enhancement Mortgage Loan

Whether or not the Borrower pays to the Lender the full amount due on a Credit Enhancement Mortgage Loan, and whether such amounts are payable under the Financing Agreement, the Note, the Reimbursement Agreement or other transaction documents, the Lender shall make Delinquency Advances in amounts as follows, each in the amount as required to be made under the Financing Agreement, the Note, the Reimbursement Agreement or other applicable transaction document, net of any Servicing Fee otherwise payable to the Lender:

- interest payments as required by the definition of Delinquency Advances, net of Servicing Fees;
- monthly installments of principal owed on the Credit Enhancement Mortgage Loan, or, if the transaction documents of the Credit Enhancement Mortgage Loan require the Borrower to make deposits to a PRF in lieu of amortizing the principal of the Credit Enhancement Mortgage Loan in whole or in part, deposit in a special custodial account meeting the requirements of the Guide ("Special Custodial Account") any amounts that the Borrower was obligated under the Note, the Reimbursement Agreement or other applicable transaction document to pay as deposits to the PRF and transfer such funds in the Special Custodial Account to the applicable Bond Trustee at such time as the funds are required for a mandatory payment of P&I under the Bonds;
- the annual or other periodic fee of the Issuer as a continuing fee for the issuance of the Bonds and the provision of the financing for the Property;
- the annual or other periodic continuing trust administration fee of the Bond Trustee;
- the annual or other periodic continuing fee of the rebate analyst, if any, for its rebate calculation services;
- the annual or other periodic continuing fee of the remarketing agent, if any, for its remarketing services;
- the Credit Enhancement Fee;
- if the transaction documents of the Credit Enhancement Mortgage Loan require the Borrower to make deposits to a PRF in lieu of amortizing the principal of the Credit Enhancement Mortgage Loan in whole or in part, the PRF Fee;
and

- if the Credit Enhancement Instrument contains a liquidity facility for the Bonds, the Liquidity Fee.

The Lender shall make such advances to the party, in the manner and at the time the Lender is required to make such remittances under the Guide. The Lender’s agreement to make Delinquency Advances in respect of a Credit Enhancement Mortgage Loan constitutes a separate contractual obligation of the Lender to Fannie Mae and is not a guaranty or surety of any obligation of the related Borrower.

208.01D Servicing Advances on a Mortgage Loan other than a Credit Enhancement Mortgage Loan

Whether or not Borrower makes payments to the Lender, the Lender shall make Servicing Advances as and when such amounts constituting Servicing Advances are required to be paid.

208.01E Servicing Advances on a Credit Enhancement Mortgage Loan

Whether or not the Borrower makes payments to the Lender, the Lender shall make Servicing Advances on a Credit Enhancement Mortgage Loan as and when such amounts constituting Servicing Advances are required to be paid. For each Credit Enhancement Mortgage Loan, Servicing Advances shall include, in addition to those items set out in the definition of Servicing Advances, all fees, costs and expenses, whether recurring or non-periodic, not covered by a Delinquency Advance but necessary, as determined by Fannie Mae, to preserve or protect the Bonds or to exercise any legal or equitable remedies under the Bond Indenture, the Bonds or any of the other transaction documents (other than the Loan Documents).

208.02 Duration of Payment of Delinquency Advances or Servicing Advances

208.02A Obligation to Make Delinquency Advances

Unless the Lender’s Contract expressly provides otherwise, the Lender must make Delinquency Advances until the earliest of:

- the Lender’s purchase of the Mortgage Loan from Fannie Mae;
- the date on which Borrower cures the Mortgage Loan default;
- the date on which the Lender makes the fourth of four continuous months of Delinquency Advances;
- the Asset Valuation Date established in accordance with Section 6.02 of the Loss Sharing Addendum; or
Notwithstanding the foregoing, (i) for Securitized Mortgage Loans, the Lender must make Delinquency Advances to Fannie Mae as long as the Mortgage Loan is held by the trust established in connection with such securitization, and (ii) for Credit Enhancement Mortgage Loans, the Lender must make Delinquency Advances to Fannie Mae as long as the Bonds are outstanding. However, in either case, Lender will receive reimbursement for such Delinquency Advances upon request as required by Part V, Chapter 2: Reporting and Remitting, Section 208.02C: Reimbursement for Delinquency and Servicing Advances following the date on which Lender makes the fourth of four consecutive months of Delinquency Advances or, if earlier, immediately following the Maturity Date of the Mortgage Loan and, thereafter, the Lender will receive reimbursement for each Delinquency Advance upon request. If the Lender believes that Delinquency Advances with respect to a Mortgage Loan are no longer required to be made pursuant to this Section 208.02, the Lender shall notify Fannie Mae, in writing, and upon written confirmation by Fannie Mae that it concurs that no further Delinquency Advances are required, the Lender shall cease making Delinquency Advances with respect to such Mortgage Loan.

208.02B  Obligation to Make Servicing Advances

Unless the Lender’s Contract expressly provides otherwise, the Lender must make Servicing Advances until the earliest of:

- the date on which the Borrower pays off the Mortgage Loan;
- the Lender’s purchase of the Mortgage Loan from Fannie Mae;
- the date on which the Borrower cures the Mortgage Loan default;
- the Asset Valuation Date related to a Foreclosure Event, a sale of the Property directed by a court of competent jurisdiction, a Discounted Loan Payoff, or Note Sale; or
- the date on which the Borrower pays off the Mortgage Loan.

The Lender shall not be required to make Servicing Advances to fund escrows or custodial accounts for taxes, assessments, and insurance premiums or to make payments to the accounts established for the Mortgage Loan; provided, however, that the Lender must apply any partial payments (including any Net Cash Flow from the Property that, under applicable state law, is then available for use by Fannie Mae) in the manner specified in the Loan Documents and the Guide.

208.02C  Reimbursement for Delinquency and Servicing Advances

Upon the expiration of the Lender’s obligation to make Delinquency Advances as provided above or, with respect to any Securitized Mortgage Loan,
Loan, following the date on which the Lender makes the fourth of four consecutive months of Delinquency Advances, the Lender may, by written notice to Fannie Mae submitted on Fannie Mae Form 4828, together with any supporting documentation required by Fannie Mae, request reimbursement for any and all Delinquency Advances made by the Lender with respect to the Mortgage Loan.

Upon making a Servicing Advance with respect to a Mortgage Loan, Lender may, by written notice to Fannie Mae submitted on Fannie Mae Form 4829, together with any supporting documentation required by Fannie Mae, request reimbursement for such Servicing Advance.

Fannie Mae shall reimburse the Lender for such Delinquency Advances and Servicing Advances within 60 days following Fannie Mae’s receipt and approval of the Lender’s written request.

This Section 208.02.C shall not apply to Delinquency Advances or Servicing Advances made by the Lender with respect to any Non-Performing Mortgage Loan with a Last Paid Installment prior to March 1, 2012.

### 208.03 Repayment of Servicing Advances from Borrower

Unless otherwise directed in writing by Fannie Mae, the Lender must seek restitution of any Servicing Advances from the Borrower. For this repayment, the Lender may require the Borrower to make full restitution on the next occurring Mortgage Loan payment due date or may permit the Borrower to make restitution payments over several months. Amounts due from the Borrower for which a Servicing Advance was made may include default interest on the Servicing Advances as permitted in the Loan Documents. Interest must be calculated from and including the date the Servicing Advance is made to but excluding the date the repayment is received. If the Lender permits restitution over several months, such restitution payments will not be included in any required calculation of DSCR.

If the Lender has been reimbursed by Fannie Mae for any Servicing Advances and receives restitution of such Servicing Advances from the Borrower, the Lender shall promptly remit such amounts to Fannie Mae.

### 208.04 No Capitalization of Servicing Advances for Securitized Mortgage Loans

For the purpose of calculating monthly distributions to the Security certificate holders or other investors, Servicing Advances will not be added to the scheduled principal balance of the related Mortgage Loan, even though the terms of the Mortgage Loan may permit increases to the outstanding principal balance of the Mortgage Loan for such advances and may permit Fannie Mae or the Lender, as applicable, to pursue recovery of those advances from the Borrower. Servicing Advances do not reduce or
modify the Borrower’s obligation under the Loan Documents.

### 208.05 Entitlement to Default Interest

Between Fannie Mae and the Lender, unless the Lender’s Contract expressly provides otherwise, so long as the Lender is obligated to make or has made Delinquency Advances as provided in Part V, Chapter 2: Reporting and Remitting, Section 208.02A: Obligation to Make Delinquency Advances, the Lender is entitled to retain 50 percent of the default interest collected from or on behalf of the Borrower. The other 50 percent of such default interest, to the extent collected from or on behalf of the Borrower, is remitted to and retained by Fannie Mae. Notwithstanding anything in this Section 208.05 to the contrary, with respect to any Non-Performing Mortgage Loan with a Last Paid Installment prior to March 1, 2012, if the Lender is obligated to make Delinquency Advances then the Lender is entitled to all default interest collected from or on behalf of the Borrower with respect to such Mortgage Loan. If the Lender is not obligated to make any Delinquency Advances on a Non-Performing Mortgage Loan, all default interest shall be remitted to and retained by Fannie Mae. Without regard to whether the Lender is making Delinquency Advances, Fannie Mae is always entitled to the interest that accrues at the stated interest rate on the Mortgage Loan net of the Lender’s Servicing Fee.

### Section 209 Remittance Procedures

The Servicer must remit to Fannie Mae collections and other amounts due by the specified Remittance Date established for each product type.

### 209.01 Definitions

For purposes of this Section, the following terms shall have the definitions set forth below.

#### 209.01A Interest Distribution Amount

For each Mortgage Loan, the interest portion, adjusted to the Pass-Through Rate of the monthly installment (without regard as to whether such amount was collected), due on the first day of the month in which a Remittance Date occurs or which becomes due at any time during the preceding month except the first day thereof.

#### 209.01B Principal Distribution Amount

For each Mortgage Loan, the total of (1) the principal portion of the monthly installment due during the period beginning on the second day of the month preceding the month in which a Remittance Date occurs and
ending on the first day of the month in which a Remittance Date occurs, without regard as to whether such amount was collected, and (2) any unscheduled principal recovery collected on a Mortgage Loan during the month preceding the month in which a Remittance Date occurs.

209.01C Monthly Remittance

The total of the Interest Distribution Amount and Principal Distribution Amount to be remitted to Fannie Mae on each Remittance Date.

209.02 Monthly P&I Remittance Due Dates for Cash and MBS Transactions

Monthly P&I remittances begin on the initial Remittance Date.

<table>
<thead>
<tr>
<th>Mortgage Loan Type</th>
<th>Initial Remittance Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Mortgage Loans (including Mortgage Loans backing a PFP MBS)</td>
<td>The month after Fannie Mae purchased the Mortgage Loan.</td>
</tr>
<tr>
<td>Securitized Mortgage Loans</td>
<td>The month after the month the MBS was issued.</td>
</tr>
</tbody>
</table>

The final Remittance Date occurs:

- for Mortgage Loans paying off on the scheduled Maturity Date: in the month the Mortgage Loan matured and the security balance dropped to $0.00 (e.g., if the Mortgage Loan pays off on its scheduled May 1 Maturity Date, the final Remittance Date will be May 18); or
- for Mortgage Loans being prepaid: in the month after the month the Mortgage Loan was prepaid (e.g., if the Mortgage Loan prepays anytime between May 2 and May 31, the final Remittance Date will be June 18).

209.03 Cash Remittance System

209.03A Drafting Account Use

The Servicer must make the monthly remittance funds available for drafting by ACH via the Cash Remittance System on the Business Day before the Remittance Date.

209.03B Drafting Account Setup

To set up a Drafting Account before the initial Remittance Date:

1. Open a Drafting Account with an Eligible Depository per Part
V, Chapter 3: Custodial Accounts, Section 301: Generally;

2. Use the Cash Remittance System to designate the custodial bank and Drafting Account to be electronically debited or credited.

209.03C Remittance Transaction Codes

The Cash Remittance System uses remittance codes linked to the:

- Servicer's unique 9-digit Servicer number; and
- specific Drafting Account identified for the applicable product and execution.

Only 1 Drafting Account per remittance code is permitted, either

- P&I Custodial Account for the Mortgage Loan category per Part V, Chapter 3: Custodial Accounts, Section 303.01: Accounts and Deposits; or
- consolidated Drafting Account.

The Servicer must ensure the:

- individual account drafting instructions, including assigned remittance codes, are coordinated with the Servicer's internal fund processing; and
- transmissions to Fannie Mae include all necessary detail to ensure timely and accurate processing.

209.04 Additional Requirements for Monthly Remittance for Security Transactions

209.04A Amount of Security Monthly Remittance

The Security monthly remittance is the total of the Security Interest Distribution and Security Principal Distribution Amounts. For each month, the Security monthly remittance must include the scheduled principal payment due on the first day of that month plus a full month's interest (calculated at the Security Pass-Through Rate) due in arrears for the previous month. It also may include unscheduled prepayments of principal.

The Servicer is required to pass through to Fannie Mae in each Security monthly remittance, the full scheduled amounts of P&I, regardless of whether such amounts actually have been collected from the Borrower. A full month's interest (calculated at the Security Pass-Through Rate) must be included in each Security monthly remittance, regardless of whether there has been any partial or full prepayment during the month.
209.04B Security Interest Distribution Amount

The Security Interest Distribution Amount due is based on the Security Balance remaining after application of the scheduled Mortgage Loan payment due on the first of the previous month. For example, the Security Interest Distribution Amount due on November 18 would be based on the Security Balance remaining after application of the scheduled Mortgage Loan payment due on October 1 (not November 1).

209.05 Securitized Mortgage Loans – Remitting Fees to Fannie Mae

209.05A Guaranty Fee Due on 7th Calendar Day of Month

To compensate Fannie Mae for the liability it assumes in issuing the Security, Fannie Mae receives a Guaranty Fee. The Guaranty Fee is an obligation of the Servicer and must be paid in arrears on the 7th calendar day, or the preceding Business Day if the 7th calendar day is not a Business Day, of each month, even if there is no collection on the Mortgage Loan or the Mortgage Loan reaches its Maturity Date during the month. Payment of the Guaranty Fee begins with the month following the month in which the Security is issued. Fannie Mae will draft the Guaranty Fee from the Servicer’s applicable designated P&I Custodial Accounts for Securitized Mortgage Loans.

The Guaranty Fee amount due Fannie Mae in any month is equal to either (a) for 30/360 interest accrual Mortgage Loans, one-twelfth of the annual Guaranty Fee rate times the Security Balance remaining after application of the scheduled Mortgage Loan principal payment due on the first day of the previous month, or (b) for actual/360 interest accrual Mortgage Loans, the annual Guaranty Fee rate divided by 360 times the number of days occurring in the month immediately preceding the Guaranty Fee payment date times the Security Balance remaining after application of the scheduled Mortgage Loan principal payment due on the first day of the previous month. For example, for Securitized Mortgage Loans the Guaranty Fee amount due to Fannie Mae on November 7 is calculated on the Security Balance remaining after application of the scheduled Mortgage Loan principal payment due on October 1.

209.05B Guaranty Fee Remittance

The monthly Guaranty Fee must be remitted as long as the Security is outstanding, even if there is no collection activity on the Mortgage Loan.

The Servicer must make funds available for the Guaranty Fee draft on the 7th calendar day of the month, or the preceding Business Day if the 7th is not a Business Day.

Under this process, Fannie Mae will send an electronic notice (or
“bill”) on the 2nd or 3rd calendar day of each month. The draft notice will show the amount due for the Guaranty Fees. When the Servicer receives the transmission, the Servicer must review the draft notice for accuracy. If discrepancies are identified, the Servicer must contact Fannie Mae by the 5th calendar day of the month to provide details on the amount and nature of the discrepancy. Fannie Mae will then review its records to validate the discrepancy and make any necessary adjustments to the Guaranty Fee bill. On the 7th calendar day of the month, Fannie Mae will draft the Guaranty Fees from the Servicer’s designated P&I Custodial Account for Securitized Mortgage Loans. If the 7th calendar day is not a Business Day, the draft will take place on the preceding Business Day.

209.05C  Same Month Pooling – Interest and Guaranty Fee Remittance for First Reporting Cycle

The Servicer’s first remittance to Fannie Mae for a Mortgage Loan submitted under the Same Month Pooling delivery option is an "interest-only" remittance because the Borrower will not have made the first payment. Accordingly, because the Borrower will not be required to send a monthly payment to the Servicer under Same Month Pooling until the month following the date the Servicer’s first remittance is due to Fannie Mae, the Servicer will have to use some of its own funds to remit the interest that is "scheduled" to be passed through to Fannie Mae for the Mortgage Loan in that month and to make the first required Guaranty Fee remittance. The interest remittance will represent one month’s full interest, and will be equal to the Issue Date principal balance of the Mortgage Loan times either (a) for 30/360 interest accrual Mortgage Loans, one-twelfth of the annual Pass-Through Rate of the Security, or (b) for actual/360 interest accrual Mortgage Loans, the annual Pass-Through Rate of the Security divided by 360 times the number of days occurring in the month of issuance of the Security. The Guaranty Fee payment will represent one month’s full Guaranty Fee, and be calculated as provided in Part V, Chapter 2: Reporting and Remitting, Section 209.05A: Guaranty Fee Due on 7th Calendar Day of Month based on Issue Date principal balance of the Mortgage Loan.

Fannie Mae will not reimburse the Servicer for its interest or Guaranty Fee remittance. However, the Servicer must:

- receive a partial month’s interest based on the Note Rate from the Borrower at closing (from the date of closing through the end of the month), and

- receive interest based on the Pass-Through Rate from the purchaser of the Security (from the first day of the month in which the Security is issued to the Book-Entry Delivery Date) as part of the sales proceeds for the Security.
209.06 Notification to Fannie Mae if Unable to Have Funds Available on any Remittance Date

If, for any reason, the Servicer cannot make funds available for drafting on the Business Day prior to the designated Remittance Date, it must immediately notify Fannie Mae by calling the Servicer’s Fannie Mae Representative. The Servicer must describe to Fannie Mae all circumstances and conditions that prevent the monthly remittance from being made on time.

Section 210 Full Prepayments

210.01 Review of Applicable Loan Documents Required

When the Servicer receives a Borrower’s notification of intent to prepay the Mortgage Loan, it must examine the specific Note (including any applicable addendum, exhibit, modification, or amendment) and Security Instrument (and any applicable rider, exhibit, modification or amendment) to determine whether prepayment of the Mortgage Loan is permitted and, if so, under what conditions. The prepayment provisions of the actual Mortgage Loan Documents govern in each case.

210.02 Notification of Prepayment; Timing of Prepayment

210.02A Notice and Timing Consistent with Loan Documents

The Borrower’s proposed prepayment date and the timing of its advance notification of its intent to prepay must be consistent with the provisions of the Loan Documents.

210.02B Borrower Notice Must Contain Date of Intended Prepayment and Comply with Notice Requirements of the Loan Documents

The Servicer must obtain from the Borrower the date on which the Borrower will prepay the Mortgage Loan. The Borrower must give the Servicer advance notice of its intent to make a full prepayment as required by the Loan Documents.

210.02C Loan Document Requirements for Payoff and Lockout Dates

If a Fannie Mae form Multifamily Note evidences the Mortgage Loan, a prepayment may be made only on the last Business Day before a scheduled Mortgage Loan payment date. Non-Fannie Mae form Notes may not contain the same requirement. Some Notes may contain lockout provisions that prohibit full prepayment for a specified period of time. The Servicer must not permit a payoff that does not comply with the requirements contained in the Loan Document.
210.02D Notice to Fannie Mae of Proposed Payoff; Use of Fannie Mae Payoff Calculator

The Servicer must notify Fannie Mae, in writing or through the Fannie Mae Payoff Calculator, upon receiving notice from the Borrower of a planned prepayment. Notice of the planned prepayment must be received by Fannie Mae not later than 10 Business Days prior to the contemplated payoff date. The Fannie Mae Payoff Calculator may only be used when the Fannie Mae form Multifamily Note evidences the Mortgage Loan.

210.03 Timing of Confirmation of the Full Prepayment Payoff Amount

The Servicer must ensure that the payoff figure quoted to the Borrower is correct. Accordingly, before the Servicer advises the Borrower of the full prepayment payoff amount, the Servicer must confirm such amount with Fannie Mae. The Servicer's request for confirmation of the full prepayment payoff amount must be submitted to Fannie Mae at least 10 Business Days before the scheduled prepayment date. At least 5 Business Days prior to the scheduled prepayment date, the Servicer must provide the Borrower written confirmation of the amount required to pay off the Mortgage Loan in full.

210.04 Full Prepayment for Cash Transactions and PFP MBS

210.04A Confirming the Full Prepayment Payoff Amount

1. Calculating the Full Prepayment Payoff Amount

To obtain Fannie Mae’s confirmation of the full prepayment payoff amount, the Servicer must either submit a written statement detailing all amounts that it believes will be due and payable by the Borrower on the prepayment date or submit the information through the Payoff Calculator, including:

- the UPB of the Mortgage Loan (as of the prepayment date);
- all accrued and to-be accrued interest, broken down into the net interest portion due to Fannie Mae (calculated at the Pass-Through Rate) and the portion to be retained by the Servicer as a Servicing Fee, calculated as if the payoff is occurring on the last day of the month in which the prepayment is occurring;
- any unpaid late fees, if applicable;
- any Prepayment Premium that is due in connection with the full prepayment, broken down into the portions due to Fannie Mae and the Servicer, respectively; and
- any other amounts due under the Note, Security Instrument, or any other Mortgage Loan Document, including, if applicable, any unpaid fee due under any Collateral Agreement.
2. Fannie Mae Will Not Confirm Nor Is Responsible for Amounts Owing to Servicer

Fannie Mae is not responsible for confirming any amounts owed to the Servicer at the time of the prepayment (e.g., any administrative fees due for services performed by the Servicer under a Collateral Agreement); however, the Servicer's payoff statement must clearly denote any such amounts so that Fannie Mae can distinguish them from amounts due exclusively to Fannie Mae. The Servicer is solely responsible for ensuring that any payoff quote given to the Borrower includes any amounts that are owed exclusively to the Servicer, as Fannie Mae will not reimburse the Servicer for such amounts from any of the funds that the Borrower remits to cover the amounts confirmed as being due to Fannie Mae.

3. Fannie Mae Confirmation of Full Prepayment Payoff Amount for Primary Risk Mortgage Loans

Fannie Mae will review the Servicer's figures and contact the Servicer to reconcile any discrepancies. Upon completion of its review and any necessary reconciliation, Fannie Mae will respond in writing to the Servicer's verification request. In its response, Fannie Mae will confirm the total payoff amount due to Fannie Mae, as well as the individual items comprising such total amount, including:

- the UPB of the Mortgage Loan;
- the net accrued interest due Fannie Mae;
- any applicable Prepayment Premium (broken down into the portions due to Fannie Mae and the Servicer); and
- any previously unpaid fees or other amounts owed to Fannie Mae.

Fannie Mae will provide any pertinent instructions for completing the prepayment payoff process, including any specific instructions that the Servicer must include in its payoff quote to the Borrower.

4. No Quote to Borrower until Fannie Mae Confirmation for Primary Risk Mortgage Loans

To ensure that the Borrower is quoted the correct payoff amount, including any applicable accrued interest, Prepayment Premium, late fees, or other amounts that might be owed under the terms of the Note, the Security Instrument, or the other Mortgage Loan Documents, the Servicer must not quote a final payoff amount to the Borrower without first obtaining Fannie Mae's confirmation of the accuracy of the Servicer's figures.

5. Fannie Mae Confirmation of Full Prepayment Payoff Amount for Secondary Risk Mortgage Loans

Unless the Lender’s Contract provides otherwise, Fannie Mae will not review the Servicer's payoff calculation for Secondary Risk Mortgage
Loans. The Servicer is solely responsible for ensuring that any payoff quote given to the Borrower includes all amounts that are owed to Fannie Mae and to the Servicer.

6. Servicer Liability

Whether confirmed by Fannie Mae through the Payoff Calculator or the payoff calculation is performed by the Servicer, the Servicer is required to collect all amounts owing by the Borrower on a Mortgage Loan payoff. If Fannie Mae determines that Servicer has provided the Borrower incorrect information because of an error in the calculation of the payoff quote, the Servicer will be responsible for any shortfall and must remit all amounts due to Fannie Mae whether or not it has collected such amounts from the Borrower.

210.04B Reporting Full Prepayment Payoff Amount

1. Full Prepayment Payoff Amount Received on First Business Day of Month

Notwithstanding anything to the contrary above, any full prepayment of a Mortgage Loan from or on behalf of a Borrower that is received by the Servicer on the first Business Day of a month will be deemed received in the prior calendar month for purposes of reporting and remitting such full prepayment.

2. Full Prepayment Reported through the eServicing System Due By 2nd Day of Month

The full prepayment must then be reported electronically to Fannie Mae through the eServicing System. The report of the full payment must be transmitted in time to reach Fannie Mae by the 2nd calendar day of the month following the month of prepayment.

210.04C Remitting Full Prepayment Payoff Amount

1. Using Pass-Through Rate to Calculate Remittance to Fannie Mae

The Servicer must use the Pass-Through Rate to calculate its P&I remittance to Fannie Mae. After collecting payoff proceeds, calculated in the manner described above at the Gross Note Rate, the Servicer must subtract its Servicing Fee, calculated using a per diem rate based on the interest accrual method provided for in the Loan Documents.

2. Remittance Due on Remittance Date

The Servicer must remit the prepayment amount on the Remittance Date in the month after the prepayment occurs per the remittance requirements in this Chapter.
210.05A Confirming the Full Prepayment Payoff Amount

1. Calculating the Full Prepayment Payoff Amount

To obtain Fannie Mae’s confirmation of the final payoff amount for a Securitized Mortgage Loan, the Servicer must submit a statement, detailing:

- All amounts that it has determined will be due and payable by the Borrower on the prepayment date, including:
  - the UPB of the loan (as of the prepayment date);
  - all accrued and to-be accrued interest, broken down into the net interest portion due to Fannie Mae (calculated at the Pass-Through Rate) and the portion to be retained by the Servicer as a Servicing Fee, calculated as if the payoff is occurring on the last day of the month in which the prepayment is occurring;
  - any unpaid late fees, if applicable;
  - any Prepayment Premium, if any, that is due in connection with the full prepayment specifying the respective portions due Fannie Mae, the Security certificate holder and Servicer; and
  - any other amounts due under the Note, Security Instrument, or any other Loan Document, including, if applicable, any unpaid fee due under any Collateral Agreement.

- All amounts that will be due and payable to Fannie Mae by the Servicer on the Remittance Date in the month following the month of prepayment, including:
  - the UPB of the loan;
  - a full month’s accrued interest, calculated at the MBS Pass-Through Rate;
  - any applicable Prepayment Premium broken down into the portions due to the MBS investor, the Servicer, and Fannie Mae calculated in accordance with the Guide; and
  - any previously unpaid fees or other amounts owed to Fannie Mae.

2. Fannie Mae Will Not Confirm Nor Is Responsible for Amounts Owing to Servicer
Fannie Mae is not responsible for confirming any amounts owed to the Servicer at the time of the prepayment (e.g., any administrative fees due for services performed by the Servicer under a Collateral Agreement); however, the Servicer's payoff statement must clearly denote any such amounts so that Fannie Mae can distinguish them from amounts due exclusively to Fannie Mae, and the MBS investor, if applicable.

3. Fannie Mae Confirmation of Full Prepayment Payoff Amount for Primary Risk Mortgage Loans

Fannie Mae will review the Servicer's figures and contact the Servicer to reconcile any discrepancies for Primary Risk Mortgage Loans. Upon completion of its review and any necessary reconciliation, Fannie Mae will respond (in writing) to the Servicer's verification request. In its response, Fannie Mae will confirm the total payoff amount due to the Servicer from the Borrower, and will also separately confirm the amounts due to Fannie Mae from the Servicer, as well as individual items comprising such total amounts, including:

- the UPB of the Mortgage Loan; and
- accrued interest due:
  - to the Servicer from the Borrower;
  - a full month’s accrued interest due Fannie Mae;
- any applicable Prepayment Premium (broken down into the portions due to Fannie Mae, the Servicer, and the MBS investor); and
- any previously unpaid fees or other amounts owed to Fannie Mae.

4. No Quote to Borrower Until Fannie Mae Confirmation for Primary Risk Mortgage Loans

To ensure that the Borrower is quoted the correct payoff amount, including any applicable accrued interest, Prepayment Premium, late fees, or other amounts that might be owed under the terms of the Note, the Security Instrument, or the other Mortgage Loan Documents, the Servicer must not quote a final payoff amount to the Borrower without first obtaining Fannie Mae’s confirmation of the accuracy of the Servicer’s figures.

5. Fannie Mae Confirmation of Full Prepayment Payoff Amount for Secondary Risk Mortgage Loans

Fannie Mae will not review the Servicer's payoff calculation for Secondary Risk Mortgage Loans. The Servicer is solely responsible for ensuring that any payoff quote given to the Borrower includes all amounts that are owed to Fannie Mae and to the Servicer.

6. Servicer Liability
Whether confirmed by Fannie Mae through the Payoff Calculator or the payoff calculation is performed by the Servicer, the Servicer is required to collect all amounts owing by the Borrower on a Mortgage Loan payoff. If Fannie Mae determines that Servicer has provided the Borrower incorrect information because it quotes a final payoff amount to the Borrower prior to Fannie Mae confirmation or has erred in its calculation of the payoff quote where Fannie Mae confirmation is not provided, the Servicer will be responsible for any shortfall and must remit all amounts due to Fannie Mae whether it has collected such amounts from the Borrower.

### 210.05B Reporting Full Prepayment Payoff Amount

1. **Security Reporting**

   By the second Business Day of the month following the month of prepayment, the Servicer must report the amount of the Prepayment Premium collected to Fannie Mae via the eServicing System in accordance with the reporting requirements provided in this Chapter.

2. **Mortgage Loan Reporting Requirements**

   The Servicer must report the prepayment amount, including any applicable Prepayment Premium, to Fannie Mae by the second Business Day of the month following the month in which the prepayment occurs in accordance with the reporting requirements provided in this Chapter.

### 210.05C Remitting Full Prepayment Payoff Amount

Under MBS, the Servicer must remit a full month's accrued interest (calculated at the MBS Pass-Through Rate) for each month that the MBS is outstanding, even if a full or partial prepayment occurs during that month. Any shortfall between the interest collected from the Borrower and the full month's interest that is due to Fannie Mae must be deposited in the Servicer's MBS P&I Custodial Account from the Servicer's own funds and remitted to Fannie Mae. The Servicer must also remit a full month's Guaranty Fee for each month that the MBS is outstanding, even if a full or partial prepayment occurs during that month.

The Servicer must remit the prepayment amount on the Remittance Date in the month after the payoff occurs per the remittance requirements in this Chapter.

### Section 211 Partial Prepayments Not From Insurance or Condemnation Proceeds

#### 211.01 Partial Prepayments Generally Prohibited

Partial prepayment of the outstanding balance of any Mortgage Loan is prohibited unless explicitly permitted in the Mortgage Loan
Documents. Under certain circumstances, to the extent permitted in the Mortgage Loan Documents, the proceeds of a Letter of Credit held pursuant to an Achievement Agreement or deposits held under a Replacement Reserve Schedule or other Collateral Agreement may be applied as a partial prepayment of the Mortgage Loan.

### 211.02 Partial Prepayment Procedures

#### 211.02A Servicer’s Analysis of Loan Documents

Any request from the Borrower for permission to make a partial prepayment must be forwarded to the Servicer’s Fannie Mae Representative, along with the Servicer's analysis and recommendation. The Servicer must carefully examine the Mortgage Loan Documents to determine if partial prepayments are permitted and, if so, under what conditions and whether a Prepayment Premium is required. The Servicer's analysis of the request must include information about:

- the event or condition precipitating the prepayment request;
- the amount of principal that would be prepaid;
- the estimated Prepayment Premium, if any, that would be due in connection with the partial prepayment;
- any proposed recasting of the Mortgage Loan or other modification of the repayment terms; and
- the proposed timing of the prepayment.

#### 211.02B Fannie Mae Approval Required for Partial Prepayments

Unless the Loan Documents expressly permit partial prepayments, Fannie Mae's approval is required before any partial prepayment is made. If the Servicer's Fannie Mae Representative agrees to allow or requires a partial prepayment to be made, it will advise the Servicer in writing of any specific conditions that will apply to such partial prepayment. Such specific conditions may include:

- when and how the prepayment must occur;
- whether a Prepayment Premium must be paid; and
- whether the Mortgage Loan repayment terms will be altered and, if so, how the Mortgage Loan Documents would have to be modified to reflect such alterations, etc.

Any decision to modify the Mortgage Loan repayment terms in connection with the partial prepayment will be made by Fannie Mae, in its sole and absolute discretion.
211.02C Prepayment Premium Due on Partial Prepayment

When a Prepayment Premium is required in connection with any partial prepayment, the Prepayment Premium is assessed on the amount of principal being prepaid and not on the outstanding UPB of the Mortgage Loan calculated and verified in the same manner as is required for full prepayments.

211.02D Reporting and Remitting Partial Prepayments When Not Permitted in Loan Documents

Partial prepayments must be reported in the same manner as is required for full prepayments. When Fannie Mae's approval is received, the proceeds representing the partial prepayment, including the Prepayment Premium (when required pursuant to the terms of the Loan Documents), must be remitted to Fannie Mae in the same manner and timeframe as required for full prepayments.

211.02E Reporting and Remitting Partial Prepayments When Permitted in Loan Documents

Fannie Mae approval is not required when the Loan Documents permit partial prepayments. Any such partial prepayments must be reported and remitted to Fannie Mae in the same manner and timeframe as is required for monthly remittances.

Section 212 Prepayments (Full or Partial) Involving Insurance Proceeds or Condemnation Awards

212.01 Partial Prepayments Generally Permitted

Partial prepayment of the Mortgage Loan is generally permitted for the application of the proceeds of an insurance claim or a condemnation award. Servicer must follow the requirements contained in the Loan Documents in connection with any such partial prepayment.

212.02 No Prepayment Premium Required

The Borrower is not required to pay a Prepayment Premium in connection with any prepayment that occurs as a result of the application to the Mortgage Loan of insurance proceeds or condemnation award proceeds, regardless of when during the Mortgage Loan term such prepayment occurs.

212.03 Reporting and Remitting Partial Prepayments

The proceeds representing the partial prepayment must be reported and remitted to Fannie Mae in the same manner and timeframe as
is required for monthly remittances.

**Section 213 Prepayment Premium Sharing**

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<th>213.01 General</th>
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<tr>
<td>The Lender Contract governs over the requirements of the Guide if it specifies whether the Lender or Servicer is entitled to retain a portion of any Prepayment Premium paid by the Borrower. If the Lender Contract provides that the Lender or Servicer is entitled to retain a portion of the Prepayment Premium, then the Servicer must calculate the applicable share of the Prepayment Premium owed to the Lender or Servicer, and remit to Fannie Mae that portion of the Prepayment Premium owed to Fannie Mae or the Investor. If the Lender Contract provides that the Lender or Servicer is not entitled to retain a portion of the Prepayment Premium, then the entire Prepayment Premium must be remitted to Fannie Mae.</td>
</tr>
<tr>
<td>If the Lender Contract does not specify whether the Lender or Servicer is entitled to retain a portion of any Prepayment Premium, then the Servicer is entitled to retain a portion of any Prepayment Premium only as provided below.</td>
</tr>
<tr>
<td>The Servicer must always remit the portion of the Prepayment Premium due to the Investor and to Fannie Mae with the final Mortgage Loan payment, retaining the balance of the Prepayment Premium due the Servicer as provided above. Upon receipt, Fannie Mae will pass through the portion of the Prepayment Premium due to the Investor.</td>
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<th>213.02 Yield Maintenance Prepayment Premiums – Prepayment Occurs Before the Yield Maintenance Period End Date</th>
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<td><strong>213.02A Calculation of Total Prepayment Premium</strong></td>
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<tr>
<td>For any prepayment that occurs before the Yield Maintenance Period End Date, the Servicer must first determine the total Prepayment Premium owing by the Borrower in accordance with the Loan Documents. The Loan Documents generally require the Borrower to pay a Prepayment Premium equal to the greater of (i) 1% of the UPB (the “Minimum 1% Prepayment Premium”), or (ii) yield maintenance.</td>
</tr>
<tr>
<td><strong>213.02B Calculation of Investor’s Share of Total Prepayment Premium for a Securitized Mortgage Loan</strong></td>
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| Fannie Mae does not guarantee payment of any portion of the Prepayment Premium to the Investor. The Investor only receives a share of any Prepayment Premium actually received from the Borrower. For a Securitized Mortgage Loan, the Servicer must calculate the Investor’s share of the total Prepayment Premium as follows using the yield rate specified per
the Loan Documents:

\[(\text{Principal prepaid}) \times (\text{Pass-Through Rate} - \text{yield rate}) \times (\text{present value factor})\].

If the result is negative, the Investor receives no Prepayment Premium share.

**213.02C** Calculation of Fannie Mae’s Share of Total Prepayment Premium

For both Securitized Mortgage Loans and Cash Mortgage Loans, the Servicer must calculate Fannie Mae’s share of the total Prepayment Premium.

If the Prepayment Premium is greater than the Minimum 1% Prepayment Premium, the difference between the total Prepayment Premium and the Investor’s portion will be shared between Fannie Mae and the Servicer. Fannie Mae’s share equals:

\[(\text{total Prepayment Premium} - \text{Investor's portion}) \times (\text{Guaranty Fee / (Guaranty Fee + Servicing Fee)})\].

If the total Prepayment Premium equals the Minimum 1% Prepayment Premium, Fannie Mae’s share equals the entire remaining Prepayment Premium above the Investor’s portion.

**213.02D** Calculation of Servicer’s Share of Total Prepayment Premium

The Servicer receives a portion of the Prepayment Premium only if the Prepayment Premium exceeds the Minimum 1% Prepayment Premium. The Servicer’s share equals:

\[(\text{total Prepayment Premium} - \text{Investor's portion}) \times (\text{Servicing Fee / (Guaranty Fee + Servicing Fee)})\].

**213.03** Yield Maintenance Prepayment Premiums – Prepayment Occurs On or After the Yield Maintenance Period End Date

**213.03A** Prepayment On or After Yield Maintenance Period End Date

The Loan Documents may provide that any full prepayment that occurs on or after the Yield Maintenance Period End Date but before a date specified in the Loan Documents (typically the last calendar day of the fourth month prior to the month in which the Maturity Date occurs), must be accompanied by a Prepayment Premium equal to a stated amount (usually 1% of the UPB of the Mortgage Loan). Neither the Investor nor the Servicer
is entitled to any portion of any Prepayment Premium paid on or after the Yield Maintenance Period End Date. The entire Prepayment Premium must be remitted to Fannie Mae.

### 213.03B Prepayment During Open Period

The Loan Documents may provide that the Borrower is not required to pay any Prepayment Premium in connection with a full prepayment made on or after a date specified in the Loan Documents (typically the last calendar day of the fourth month prior to the month in which the Maturity Date occurs).

### 213.04 Fixed Rate Mortgage Loans with Graduated Prepayment Premiums

For fixed rate Mortgage Loans where the Loan Documents require a graduated Prepayment Premium, the Servicer is not entitled to retain any portion of the Prepayment Premium. The entire Prepayment Premium must be remitted to Fannie Mae.

### 213.05 Prepayment Premiums for ARM Loans and Structured ARM Loans

Unless the prepayment of an ARM Loan that used Prepayment Option 1 or Prepayment Option 2, or of a Structured ARM Loan is the result of a casualty or condemnation, any prepayment made before a date specified in the Loan Documents (typically the last calendar day of the fourth month prior to the month in which the Maturity Date occurs) must include a Prepayment Premium that will be shared between Fannie Mae and the Servicer. The Investor is not entitled to receive any portion of the Prepayment Premium for either an ARM Loan or a Structured ARM Loan. In each case, Fannie Mae’s share will be a percentage determined by the following formula:

\[
\text{Guaranty Fee} \times \frac{\text{Guaranty Fee} + \text{Servicing Fee}}{\text{Guaranty Fee} + \text{Servicing Fee}}
\]

For example, if the Guaranty Fee is 62.5 basis points and if the Servicing Fee is 45 basis points, then Fannie Mae’s share will be:

- \[62.5 \times \frac{62.5 + 45}{62.5 + 45} = 58.14\%\]

The Servicer must remit the portion of the Prepayment Premium due Fannie Mae with the final Mortgage Loan payment. The Servicer may retain the balance of the Prepayment Premium.

No Prepayment Premium is due in connection with an ARM Loan.
with a conversion option or with a Structured ARM Loan that is converting to a fixed rate Mortgage Loan.

**213.06 Prepayment Premium Waivers; Servicer’s Share of Prepayment Premium**

The Servicer may not waive any portion of the Prepayment Premium due and owing under the Loan Documents, except as provided in Part III, Chapter 18: Choice Refinance Loans, Section 1803: Prepayment Premiums in connection with a Choice Refinance Loan.

No portion of the Servicer's share of the Prepayment Premium may be:

- waived by the Lender;
- used as a rebate to the Borrower, or any party related to the Borrower, for any purpose; or
- used for the payment of any expenses related to any loan used to refinance the Mortgage Loan.

**Section 214 Maturing Mortgage Loans/Payoffs**

**214.01 Balloon Mortgage Loans**

Fannie Mae expects any Borrower with a Balloon Mortgage Loan to refinance or otherwise pay off the Mortgage Loan in full on (or before) the scheduled Maturity Date. Failure to pay off the Mortgage Loan in full on (or before) the scheduled Maturity Date is a default and puts the Borrower at risk that Fannie Mae will exercise any available remedy under the Security Instrument and the other Loan Documents. Whenever a Borrower fails to pay off a Balloon Mortgage Loan on its Maturity Date, the Servicer must notify its Fannie Mae Representative of such failure as soon as possible, and must report the balloon payment default on the Multifamily Delinquency System®. Any acceptance of a payoff amount occurring after the Balloon Mortgage Loan’s stated Maturity Date must be approved by Fannie Mae.

**214.02 Servicer Notification of Payoff Amount to Borrower**

At least 5 days prior to the scheduled Maturity Date of the Mortgage Loan, the Servicer must advise the Borrower in writing of the amount required to pay off the Mortgage Loan in full. The Servicer must ensure that the payoff figure quoted to the Borrower is correct.

**214.03 Calculating and Obtaining Confirmation of Payoff Amount**

**214.03A Calculating the Full Payoff Amount**
The Servicer's request for verification of the final payoff amount must be submitted to Fannie Mae at least 10 days before the scheduled Maturity Date. To obtain Fannie Mae's confirmation of the final payoff amount, the Servicer must submit a statement, detailing all amounts that it believes will be due and payable by the Borrower on the payoff date, including:

- the UPB of the Mortgage Loan (as of the payoff date);
- accrued interest, up to the payoff date, broken down into the net interest portion due to Fannie Mae (calculated at the Pass-Through Rate) and the portion to be retained by the Servicer as a Servicing Fee;
- any unpaid late fees, if applicable; and
- any other amounts due under the Note, Security Instrument, or any other Mortgage Loan Document, including, if applicable, any unpaid fee due under any Collateral Agreement.

214.03B Fannie Mae Will Not Confirm Nor Is Responsible for Amounts Owing to Servicer

Fannie Mae is not responsible for confirming any amounts owed to the Servicer at the time of the payoff (e.g., any administrative fees due for services performed by the Servicer under a Collateral Agreement); however, the Servicer's payoff statement must clearly denote any such amounts so that Fannie Mae can distinguish them from amounts due exclusively to Fannie Mae. The Servicer is solely responsible for ensuring that any payoff quote given to the Borrower includes any amounts that are owed exclusively to the Servicer, as Fannie Mae will not reimburse the Servicer for such amounts from any of the funds that the Borrower remits to cover the amounts confirmed as being due to Fannie Mae.

214.03C Fannie Mae Confirmation of Full Payoff Amount

Fannie Mae will review the Servicer's figures and contact the Servicer to reconcile any discrepancies. Upon completion of its review and any necessary reconciliation, Fannie Mae will respond (in writing) to the Servicer's verification request. In its response, Fannie Mae will confirm the total payoff amount due to Fannie Mae, as well as the individual items comprising such total amount, including:

- the UPB of the Mortgage Loan;
- the net accrued interest due Fannie Mae;
- any applicable Prepayment Premium; and
- any previously unpaid fees or other amounts owed to Fannie Mae.
Fannie Mae also will provide any pertinent instructions for completing the payoff process, including any specific instructions that the Servicer must pass along to the Borrower with the payoff quote.

214.03D No Quote to Borrower Until Fannie Mae Confirmation

To ensure that the Borrower is quoted the correct payoff amount, including any applicable accrued interest, Prepayment Premium, late fees, or other amounts that might be owed under the terms of the Note, the Security Instrument, or the other Mortgage Loan Documents, the Servicer must not quote a final payoff amount to the Borrower without first obtaining Fannie Mae’s confirmation of the accuracy of the Servicer’s figures.

214.04 Reporting the Payoff and Remitting the Payoff Funds

214.04A Reporting Full Payoff Amount Through the eServicing System Due By 2nd Business Day of Month

The full payoff must be reported electronically to Fannie Mae through the eServicing System. The report of the full payment must be transmitted in time to reach Fannie Mae by the 2nd Business Day of the month following the month of payoff.

214.04B Remitting Full Payoff Amount

1. Using Pass-Through Rate to Calculate Remittance to Fannie Mae

The Servicer must use the Pass-Through Rate to calculate its P&I remittance to Fannie Mae. After collecting payoff proceeds, calculated in the manner described above at the Gross Note Rate, the Servicer must subtract its Servicing Fee, calculated using a per diem rate based on a 360-day year.

2. Remittance Due on Next Remittance Cycle for Cash Mortgage Loans and Securitized Mortgage Loans

For Cash Mortgage Loans and Securitized Mortgage Loans, the Servicer must follow the reporting and remitting procedures for monthly installment reporting and remitting.

Section 215 Post-Payoff Actions

215.01 Servicer Required Actions

215.01A General

To facilitate the return of release documents from Fannie Mae, at all times the Servicer must maintain on file with Fannie Mae a master file copy of the Custody Document Transmittal (Form 276) completed with the
following information:

- the Lender’s nine digit Servicer number;
- “MASTER FORM” entered for the Fannie Mae Loan Number;
- “Payoff” checked as the liquidation reason; and
- the Lender’s mailing address.

The completed form must be sent to Multifamily Master Servicing. If the mailing information for the Lender changes at any time, the Lender must update the master file copy of the Custody Document Transmittal (*Form 276*) with Fannie Mae.

215.01B Individual Mortgage Loan Releases

For each Mortgage Loan, upon receipt of the payoff funds from the Borrower, the Servicer must:

- refund to the Borrower any T&I escrow funds and any Replacement Reserve funds still held by the Servicer in connection with the Mortgage Loan (must be accomplished within 30 days of the payoff); and
- send the following to Fannie Mae:
  - if the release documents are to be sent to a different mailing address than that listed on the master file copy of the Custody Document Transmittal (*Form 276*) with Fannie Mae, a transaction-specific Custody Document Transmittal (*Form 276*), requesting Fannie Mae to return the original Note and indicating the different address to which the release documents for that specific Mortgage Loan should be sent;
  - for all recorded Loan Documents (e.g., Security Instrument) that require a release, the appropriate release document for the state in which the Property is located; and
  - a request to Multifamily Servicing to release any additional collateral still held by Fannie Mae in connection with the Mortgage Loan.

Fannie Mae will execute the necessary releases, and return them, along with the original Note (appropriately marked or stamped to evidence full satisfaction), to the Servicer. The Servicer must return the Note to the Borrower, file the appropriate UCC termination forms and arrange to have the release documents recorded. Fannie Mae will be responsible for returning any applicable Achievement Letter of Credit to the issuer for cancellation.
215.02 Post Payoff Document Retention Requirements

Following its return to the Servicer of the Note and the releases for all recorded Loan Documents, Fannie Mae will forward its file for the Mortgage Loan to the Servicer. The Servicer must retain the entire Mortgage Loan Servicing File for 7 years after a Mortgage Loan payoff.

Section 216 DUS Bond Credit Enhancement Transactions – Reporting and Remitting Requirements

The requirements of this Section are applicable to Bond Credit Enhancement Transactions only and the Servicer’s reporting, collection, and remitting of prepayments must be done in accordance with the procedures described below.

216.01 Monthly Bond Credit Enhancement Reporting

For reporting purposes, the Servicer must segregate its DUS Bond Credit Enhancement portfolio into 2 groups:

- DUS Bond Credit Enhancement by Credit Enhancement Instrument and Collateral Agreement; or
- DUS Bond Credit Enhancement by a Security.

The Servicer must electronically submit a Credit Enhancement Activity Report (Form 4090) using the Credit Enhancement Servicing and Investor Reporting System (CESIR) for each DUS Bond Credit Enhancement Mortgage Loan and Bond each month. The date that the Credit Enhancement Activity Report is due is dependent on whether the Mortgage Loan’s monthly P&I payments are due on the first of the month or on the 15th of the month.

The Servicer must register to use CESIR prior to use. Information regarding registering for CESIR can be found on https://multifamily.fanniemae.com/applications-technology/cesir.

For most DUS Bond Credit Enhancements, the monthly reporting rule is applied as follows:

- If the Mortgage Loan payments are due on the first of the month, the report is due on the fourth calendar day of the month or the next Business Day if the fourth calendar day of the month is not a Business Day; or
- If the Mortgage Loan payments are due on the 15th day of the month, the report is due on the 15th calendar day of the same month or the next Business Day if such day is not a Business Day.
The monthly report must include:

- all scheduled Mortgage Loan payments to be made by the Borrower whether or not such payments are actually made by the Borrower; and
- bond redemptions reported by the Bond Trustee for the current calendar month.

### 216.02 Monthly Remittance Procedures

#### 216.02A Monthly Remittances of Scheduled Payments to Bond Trustee

Monthly remittances to the Bond Trustee depend on the execution type for the transaction and applicable transaction requirements.

1. **Standby Execution**

   For Standby executions, the Servicer must pay the Scheduled Payments (net of the Facility Fee) to the Bond Trustee. The Servicer must make the payment to the Bond Trustee by wire transfer of same day funds on or before the 5th Bond Business Day before the day on which the bond payment is due to be made by the Bond Trustee to the bondholders. Bond Business Day is determined under the Bond Indenture for each separate Bond transaction.

2. **Direct Pay Execution**

   For direct pay executions, the Servicer must perform the following:

   a. The Servicer must pay to the Bond Trustee, by wire transfer of same day funds on the Bond Payment Date, the following components of the Scheduled Payment:

      1. the PRF deposit;
      2. the periodic fees payable to the Issuer, Bond Trustee, Rebate Analyst, any Compliance Monitor, Remarketing Agent and Tender Agent and any other similar person; and
      3. any other requirement, as specified in the Reimbursement Agreement.

   b. The Servicer must remit the following components of the Scheduled Payment to Fannie Mae in reimbursement of any related Advance under the credit enhancement as provided in this Section:

      1. the interest component; and
      2. any principal component which is to amortize immediately the Mortgage Loan and is not to be deposited into the PRF.

   c. For Direct Pay Weekly Variable Rate transactions where
the Borrower is obligated to make its payments 2 Business Days prior to the 15th of each month and the bondholders must be paid on the 15th of each month, the Servicer must make its payments by wire transfer of same day funds on the 1st or 15th calendar day of each month. Other requirements may apply, as specified in the Reimbursement Agreement.

216.02B  Replenishment of Withdrawals from the PRF

If the Borrower pays the Servicer any amount to replenish a withdrawal from the PRF, the Servicer shall pay such amount to the Bond Trustee not later than 2:00 p.m. Eastern Time, no later than the Business Day immediately after receipt of such monies from the Borrower.

216.02C  Collection and Remittance of Borrower Reimbursement Obligations for Fannie Mae Advances

The Servicer must pay the following amounts to Fannie Mae:

1. The interest component of the Scheduled Payment and principal component of the Scheduled Payment which is to amortize immediately the Mortgage Loan and is not to be deposited into the PRF. Such amounts reimburse Fannie Mae for the related Advance under a Credit Enhancement Instrument or Collateral Agreement.

2. Any accrued and unpaid Activity Fee.

3. Any other amounts due to Fannie Mae under the Reimbursement Agreement other than the Facility Fee.

Fannie Mae will draft such amounts so as to be received by Fannie Mae no later than the Business Day immediately after the receipt of such monies from the Borrower.

The Servicer must also collect from the Borrower and remit to Fannie Mae any other fees, expenses or additional costs due from the Borrower to Fannie Mae under the Reimbursement Agreement. Fannie Mae and/or the Bond Trustee will notify the Servicer regarding any such amounts to be invoiced by the Servicer for payment by the Borrower under the Reimbursement Agreement, the Financing Agreement or other Transaction Document.

216.02D  Monthly Remittance of Fees to Fannie Mae

Fannie Mae will draft the Facility Fee, net of the Servicer’s Servicing Fee each month. Fannie Mae will draft such amounts 4 calendar days after such amount is scheduled to be paid by the Borrower under the applicable Transaction Document. If the fourth calendar day is not a Business Day, then such draft will be made on the next Business Day.

216.02E  Notice and Collection of Other Fees and Expenses
At the written request of the Bond Trustee or if the Reimbursement Agreement or the Financing Agreement requires the Borrower to make such payments through the Servicer, the Servicer will invoice the Borrower for any fees and expenses payable by the Borrower to the (1) Issuer, (2) Bond Trustee, (3) Rating Agency, (4) Remarketing Agent, (5) Rebate Analyst, (6) Compliance Monitor or (7) Custodian.

The Servicer’s invoice must require the Borrower to pay all such amounts to the Servicer not later than the earlier of ten days following the receipt of the invoice or the Business Day such amounts become due. The Servicer will remit all such payments received from the Borrower to the Bond Trustee, the Rating Agency, or Custodian, as applicable, and, if to the Rating Agency or Custodian, with notice to the Bond Trustee of such payment.

**216.03 Prepayments – General Introduction**

When a Borrower prepays a Mortgage Loan in a DUS Bond Credit Enhancement in whole or in part, the bonds also will be prepaid or redeemed in whole or in part on a corresponding basis. This is the starting point for the analysis of the obligations of the Borrower to account for any fees payable on account of the prepayment or redemption.

**216.03A Bond Redemption Premiums Payable to Bondholders**

All relevant rules regarding bond redemption premiums will be contained in the related Bond Indenture. The Borrower is obligated to pay any bond redemption premium. Fannie Mae does not provide credit enhancement for the bond redemption premium.

Not all types of bond redemptions are subject to redemption premiums and the Servicer must consult the related Bond Indenture documentation to determine whether a redemption premium is due. As a general rule, only bond redemptions initiated voluntarily or optionally by the Borrower will potentially have a redemption premium. Mandatory redemptions almost never have a redemption premium. Mandatory redemptions include redemptions paid from condemnation proceeds and insurance proceeds from casualty losses.

1. **Variable Rate Bond Redemption**

   Weekly variable rate bonds may typically be redeemed at any time, or at least on any bond interest payment date, without restriction or redemption premium to the bondholders subject to the terms of the related Bond Indenture.

2. **Fixed Rate Bond Redemption**

   Fixed rate bonds are typically restricted from optional or voluntary redemption by the Borrower for a specific period following the original bond issuance date, known as a lockout period. A lockout period may approximate 10 years from the initial bond issuance. Following the
expiration of the lockout period, any voluntary redemption during the subsequent 3 to 5 year period typically requires the payment of a redemption premium to bondholders.

**NOTE:** Most transactions require the Borrower to pay the bond redemption premium with money that is not subject to being treated as a voidable preference under applicable bankruptcy and insolvency laws. This usually means the redemption premium cannot come from regular resources of the Borrower. The Bond Indenture must be consulted for requirements applicable to sources of payment of the Bond Redemption Premium and legal counsel should be consulted.

### 216.03B Termination Fee or Prepayment Premium Payable to Fannie Mae

Any Prepayment Premium payable to Fannie Mae on the credit enhancement is separate and distinct from any redemption premium payable to bondholders. This is true for all executions: Direct Pay, Standby and MBS.

In most instances, Fannie Mae requires the Borrower to pay a Prepayment Premium (or “Termination Fee” if required in the applicable documents) if the prepayment occurs within a certain number of years after original delivery of Fannie Mae’s credit enhancement. In earlier Bond Credit Enhancement transactions, the premium will be called a Prepayment Premium and will be addressed in the Note. In later transactions, the premium will be called a Termination Fee and will be addressed in the Reimbursement Agreement.

### 216.03C Termination When No Prepayment Occurs; Weekly Variable Rate Transactions

In DUS Variable Rate Credit Enhancements, there is the possibility that neither the Mortgage Loan nor the bonds are actually being prepaid, but only that the Borrower is replacing Fannie Mae as the provider of the credit enhancement and liquidity, terminating Fannie Mae’s involvement in the transaction. For purposes of this section, that too is treated as a prepayment. In the event that the Mortgage Loan is being prepaid or Fannie Mae is being replaced as credit enhancer, the result is that the credit enhancement is being terminated. In recent years, to take this into account, the general term “Termination” has been used to refer to the events and “Termination Fee” to refer to the fee which may be payable on account of those events.

The Servicer must remit any Termination Fee due Fannie Mae in accordance with remittance requirements contained below in this Section by 2:00 p.m. Eastern Time on the next Business Day following the day on which the Borrower’s termination of Fannie Mae’s credit enhancement and liquidity is effective.
216.04A General

The Note requires the Borrower to give advance notice of a full or partial prepayment to the Servicer, the Bond Trustee, and, if a DUS Variable Rate Credit Enhancement, the Remarketing Agent. Any partial prepayment must be in an amount corresponding to an authorized denomination of the Bonds. Typically, Fannie Mae will require its consent to an optional redemption of Bonds.

The Servicer must always keep in mind that the date on which the Borrower must transfer money to the Servicer to initiate a prepayment may not be the day that the transfer of funds is treated as a prepayment under the governing documents. For example, under some documents the Borrower must make the prepayment not later than the last Business Day before the day the Bond Trustee, under the Bond Indenture, must have received funds for redemption of the Bonds. The Mortgage Loan prepayment will not be recognized until the Bonds are actually redeemed or deemed paid and no longer under the requirements of the Bond Indenture.

216.04B Prompt Notice of Intended Prepayment

The Servicer must promptly notify Fannie Mae (Multifamily Asset Management) and the Bond Trustee in writing upon receiving notice from the Borrower of a planned prepayment. If the prepayment does not occur on such date, the Borrower may not subsequently prepay the Mortgage Loan in full without first giving the Servicer and all other parties to whom notice is required, a new notice of intent to prepay in accordance with the Loan Documents.

216.04C Critical Path Due Dates

The Servicer must ensure that the final prepayment amount quoted to the Borrower prior to prepayment is correct. Accordingly, before the Servicer advises the Borrower of the final prepayment amount, the Servicer must verify such amount with the Bond Trustee and Fannie Mae.

1. No less than 10 days prior to the scheduled prepayment date, the Servicer must obtain the Bond Trustee's written confirmation of all amounts due and payable in connection with the prepayment.

2. No less than 10 days prior to the scheduled prepayment date, and after verifying amounts due on the Bonds with the Bond Trustee, the Servicer must request verification of the full or partial prepayment amount from Fannie Mae.

3. No less than 5 days prior to the day the Borrower is required to initiate the prepayment, the Servicer must advise the Borrower in writing of the full amount necessary to make the prepayment.

NOTE: The day the Borrower is required to initiate the prepayment
will be before the day the Bonds are to be redeemed.

4. For weekly variable rate bonds, immediately following the last day on which interest is determined on the Bonds before the scheduled redemption date of the bonds, the Servicer must re-verify the amount the Borrower must pay for the prepayment. The Servicer must immediately advise the Borrower of any correction required by the re-verification.

The Servicer should note that the transaction documents do not uniformly address the redemption premium, if any, payable to Bondholders and Prepayment Premium or termination fee, if any, payable to Fannie Mae on account of a prepayment of the Mortgage Loan. In some instances, the fee maintenance Prepayment Premium set out in the Note will be payable to Fannie Mae. In other instances, the Prepayment Premium payable under the Note must be remitted to the Bond Trustee for payment to bondholders as a redemption premium. In this case, the Borrower may be required to pay a Termination Fee to Fannie Mae pursuant to the Reimbursement Agreement. The Servicer must be alert to these requirements.

216.04D Fannie Mae’s Confirmation Required

To obtain Fannie Mae’s confirmation of the prepayment amount, the Servicer must submit a statement detailing the following:

1. the Fannie Mae Mortgage Loan number(s) and bond number(s), the Property name and address and the expected prepayment date;

2. all amounts that it has determined (and for such amounts due the Bondholders, confirmed with the Bond Trustee) will be due and payable by the Borrower on the prepayment date, including:

   (a) the full or partial principal prepayment (as of the prepayment date) of the Note, separately specifying any amounts in the PRF expected to be applied to principal;

   (b) accrued interest up to but not including the date of prepayment of the Note;

   (c) any unpaid late fees (if applicable);

   (d) any Prepayment Premium or Termination Fee required to be paid to the Bondholders or Fannie Mae, respectively, under the terms of the Note, the Financing Agreement, the Indenture or the Bonds;

   (e) any termination fee payable to Fannie Mae pursuant to the Reimbursement Agreement;

   (f) any other amounts due under the Loan Documents; and

   (g) all other amounts due upon a redemption of Bonds under the Bond Documents, including any interest required to cover the gap between Mortgage Loan and Bond prepayment for which an escrow or
collateral is not already provided. (The Servicer must request this information from the Bond Trustee.)

3. written confirmation from the Bond Trustee of all amounts due the Bondholders.

4. all amounts that will be due and payable to Fannie Mae on the day as required by this Section following prepayment, including:
   (a) Credit Enhancement Fee and Liquidity Fee;
   (b) any previously unpaid fees or other amounts owed to Fannie Mae; and
   (c) any applicable Prepayment Premium or Termination Fee that is due, broken down into the portions due to the Servicer and Fannie Mae.

The Prepayment Premium or Termination Fee is a percentage (as specified in the Note or Reimbursement Agreement) multiplied by the UPB of the Mortgage Loan after crediting the scheduled payment due on the date regular mortgage loan payments are due (in some transactions, the first of the month and in others, the 15th of the month) in which a prepayment takes place.

Fannie Mae’s share of the Prepayment Premium or Termination Fee will be a percentage determined by dividing the sum of the Credit Facility Fee and the Liquidity Fee by the sum of the Credit Facility Fee, Liquidity Fee and the Servicing Fee.

No Prepayment Premium or Termination Fee is due in connection with an application of insurance proceeds or condemnation awards, a monthly deposit to the PRF, a redemption of Bonds from amounts transferred from the PRF to a redemption account, a reduction and amortization of the Mortgage Loan as a result of a Bond redemption, or an adjustment to a Reset Rate or a Fixed Rate.

For New Construction/Substantial Rehabilitation Mortgage Loans, other prepayment criteria may apply depending on the transaction structure.

Fannie Mae is not responsible for confirming any amounts owed to the Servicer at the time of the prepayment (e.g., any administrative fees due for services performed by the Servicer under a Collateral Agreement); however, the Servicer’s payoff statement should clearly denote any such amounts so that Fannie Mae can distinguish them from amounts due exclusively to Fannie Mae and the Bond Trustee.

Fannie Mae will review the Servicer’s figures and contact the Servicer to reconcile any discrepancies. Upon completion of its review and any necessary reconciliation, Fannie Mae will respond to the Servicer’s verification request in writing. In its response, Fannie Mae will confirm the total payoff amount due to the Servicer from the Borrower, and will also separately confirm the amounts due to Fannie Mae from the Servicer, as
well as individual items comprising such total amounts.

It is the Servicer’s responsibility to prepare lien release
documentation.

### 216.05 Prepayments: Prepayment Reporting

The Servicer must report the prepayment amount, including any applicable Prepayment Premium or Termination Fee due Fannie Mae and/or any redemption premium due the bondholders, to Fannie Mae in accordance with the reporting requirements contained in Part V, Chapter 2: Reporting and Remitting, Section 216.01: Monthly Bond Credit Enhancement Reporting. The date the report is due depends on the execution type of the underlying transaction.

1. If the Mortgage Loan payments are due on the first of the month, the report is due on the fourth calendar day of the month in which the prepayment occurs, or the next Business Day if the fourth is not a Business Day.

2. If the Mortgage Loan payments are due on the 15th of the month, the report is due on the 15th of the month or the next Business Day if such day is not a Business Day.

### 216.06 Prepayments: Remittances

The Servicer must remit any Prepayment Premium and/or Termination Fee due Fannie Mae by 2:00 p.m. Eastern Time, on the next Business Day following the day on which the Borrower’s prepayment is received.

Depending on the execution and transaction type, the Servicer must also be concerned with invoicing, collecting and remitting the principal amount of the Mortgage Loan to be prepaid. In all cases, the Servicer must invoice and collect the principal amount being prepaid from the Borrower. No prepayment of Direct Pay Facilities will be allowed until Fannie Mae receives the necessary funds from the Borrower.

Any prepayment of principal on any Mortgage Loan received by the Servicer shall be paid, as follows:

1. **Standby Execution:** Prepayments shall be remitted to the Bond Trustee not later than the Bond Business Day immediately after the date of receipt such funds by the Servicer; or

2. **Direct Pay Execution:** Prepayments shall be remitted to Fannie Mae on the same day as the Fannie Mae Advance to the Bond Trustee funding the corresponding bond redemption associated with the prepayment.

### 216.07 Reporting on Delinquency Status
The Servicer must electronically submit to Fannie Mae using the Multifamily Delinquency Early Warning System (DEWS), or any successor system selected by Fannie Mae to do such reporting, the monthly delinquency status of the Mortgage Loan on the 17th calendar day of the month. If the 15th falls on a holiday or weekend, the System is available the next Business Day. The Servicer must plan around this one day window period for the purpose of reporting delinquencies. This rule applies to all execution and transaction types for DUS Bond Credit Enhancement.

**Section 217**

**Mezzanine Loan Reporting and Remitting**

NOTE: Except as otherwise required below, the reporting and remitting requirements for Cash Mortgage Loans provided in this Chapter apply to Mezzanine Loans.

**217.01 Remitting DUS Plus Mezzanine Loans**

For the DUS Plus Mezzanine Loan, the Servicer is required to remit to Fannie Mae via the Cash Remittance System. On each remittance date the amount representing P&I (adjusted to the Pass-Through Rate) actually collected from the Mezzanine Borrower must be remitted. The initial remittance date for any DUS Plus Mezzanine Loan is the 18th day of the month following the month in which the DUS Plus Mezzanine Loan is purchased, with monthly remittances due on the 18th day of each month thereafter.

For each DUS Plus Mezzanine Loan, the principal distribution amount remitted must include the sum of:

- the principal portion actually collected from the Mezzanine Borrower of the monthly installment due during the period beginning on the second day of the month preceding the month in which a remittance date occurs and ending on the first day of the month in which a remittance date occurs; and

- any unscheduled principal recovery collected on a DUS Plus Mezzanine Loan during the month preceding the month in which a remittance date occurs.

The interest distribution amount remitted includes the interest portion of the monthly installment (that portion actually collected from the Mezzanine Borrower), adjusted to the Pass-Through Rate, due on the first day of the month in which a remittance date occurs or due at any time (other than the first day) during the preceding month.

The Servicer must remit funds collected from the Mezzanine Borrower even if they do not represent a full payment. The Servicer may not deduct monthly Servicing Fees until the entire monthly payment has been collected from the Mezzanine Borrower.
The Servicer is not required to remit to Fannie Mae on the remittance date any amounts representing P&I that have not been received from the Mezzanine Borrower and are, therefore, delinquent. Any delinquent payment received after the 18th calendar day of the month in which it is due must be remitted to Fannie Mae by 1:00 p.m. ET within 24 hours of its receipt.

**217.02 Payoffs**

For DUS Plus Mezzanine Loans, proceeds for payments-in-full, including any applicable repayment fees, must be remitted directly to the mezzanine investor within 24 hours after receipt by the DUS Servicer. The full payment must be reported to Fannie Mae by the second Business Day of the month following the month in which the prepayment is received in accordance with Part V of this Guide.

**Section 218 Defeasance**

**218.01 Mortgage Loan Documents Must Permit Defeasance**

A Borrower may elect to defease its Mortgage Loan only if the Loan Documents permit defeasance. If the Borrower’s Mortgage Loan Documents do not permit defeasance, defeasance of the Mortgage Loan is not permitted.

**218.02 Borrower’s Election to Defease**

Prior to the Mortgage Loan’s Maturity Date and during the Mortgage Loan’s Defeasance Period, the Borrower may defease the entire outstanding balance of the Mortgage Loan in accordance with the applicable terms and conditions of the Borrower’s Loan Documents and the provisions of this Section.

**218.03 Defeasance Option Procedures**

To accomplish the defeasance, the following procedures must be followed:

**218.03A Defeasance Documents**

Servicer must obtain the most current Defeasance documents from the Fannie Mae website. The Defeasance documents consist of the Defeasance Notice (Form 4622) and other closing documents required by Fannie Mae in order for the defeasance to occur.

**218.03B Defeasance Notice**
The Servicer must complete the Defeasance Notice (Form 4622) after verifying the Mortgage Loan is eligible for defeasance and obtaining from the Borrower the date on which the Borrower desires to consummate the Defeasance. The Defeasance Close Date may not be more than 45 calendar days nor less than 30 calendar days after the date on which the Defeasance Notice is received by the Servicer. The Servicer must use the Defeasance Calculator application on the Fannie Mae web site to estimate the Defeasance Deposit and the estimated Defeasance Deposit must be inserted in the appropriate box in the Defeasance Notice. The information on the Defeasance Notice will not be final until it is confirmed by Fannie Mae. Until then, the Defeasance Deposit and other information are estimates. The Defeasance Notice will specify (a) whether a Fannie Mae debt instrument will be offered for use as the substitute collateral and, if not, that U.S. Treasury Securities will be the substitute collateral; and (b) whether the successor entity will be designated by Fannie Mae or Borrower, and (c) the amount of the Defeasance Commitment Fee.

To be effective, the Borrower must execute and send the Defeasance Notice to the Servicer so that the Servicer receives the Defeasance Notice no earlier than 11:00 a.m. and no later than 3:00 p.m. ET on a Business Day.

The Servicer must then sign and execute the Defeasance Notice and fax the Defeasance Notice and a copy of the Note to be defeased to its Fannie Mae Representative.

Fannie Mae must receive the fax by 5:00 p.m. ET on the same day that the Defeasance Deposit was calculated for verification by Fannie Mae.

218.03C Defeasance Commitment Fee

A Defeasance Commitment Fee equal to 1% of the scheduled balance of the Mortgage Loan as of the Defeasance Close Date, must be paid by the Borrower to the Servicer no later than the date and time when the Servicer receives the executed Defeasance Notice from the Borrower. The Servicer must wire the Defeasance Commitment Fee to Fannie Mae within 24 hours after receipt of the Borrower's executed Defeasance Notice.

218.03D Verification of the Defeasance Notice

Fannie Mae will verify the Mortgage Loan information contained in the Defeasance Notice as well as the Mortgage Loan's eligibility for defeasance. After verification and within two (2) Business Days after the initial receipt of the Defeasance Notice from the Servicer, Fannie Mae will sign the Defeasance Notice and fax it back to the Servicer along with an Exhibit that details the monthly cash flows of the Fannie Mae debt instrument that will replace the Property as collateral for the Mortgage Loan.

The Servicer will then fax the verified Defeasance Notice to the Borrower on the same day that the Servicer receives the verified...
Defeasance Notice from Fannie Mae. In the event that Fannie Mae made changes to the Defeasance Notice, the Borrower must initial the changed portions of the Defeasance Notice and fax it back to the Servicer on that same day. The Servicer must then immediately fax the Borrower-initialed Defeasance Notice to Fannie Mae.

If the Servicer does not
- receive the Defeasance Commitment Fee, and
- provide confirmation of the Defeasance Notice to the Borrower,

then the Borrower's right to obtain Defeasance pursuant to that Defeasance Notice shall terminate. If the Borrower still wishes to defease the Mortgage Loan, the Borrower must submit a new Defeasance Notice and repeat the process outlined above.

218.03E Substitute Collateral

On or before the Defeasance Close Date, the Borrower must deliver to the Servicer a Defeasance Pledge Agreement (Form 4529), creating a perfected security interest in the substitute collateral in favor of Fannie Mae.

218.03F Assignment and Assumption

The Borrower must assign all its obligations and rights under the Note, together with the substitute collateral, to a successor entity designated by Fannie Mae or, if not so designated by Fannie Mae, designated by Borrower and acceptable to Fannie Mae. The Borrower and the successor entity shall execute and deliver to the Servicer a Defeasance Assignment and Assumption Agreement (Form 4528).

218.03G Closing Documents

The Servicer must deliver to Fannie Mae by no later than 10 a.m. ET, five (5) Business Days before the Defeasance Close Date, the following documents:
- a Borrower’s Counsel Opinion Letter (Form 6618) affirming:
  - that each Defeasance Document constitutes the valid and legally binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms;
  - that the defeasance is not subject to avoidance under any applicable federal or state laws;
  - that, if the Note is held by a REMIC Trust, then the defeasance has been effected in such a way that does not adversely affect the REMIC Trust; and
such other opinions, certificates, documents or instruments as Servicer may reasonably request;

- the Defeasance Assignment and Assumption Agreement (Form 4528); and
- the Defeasance Pledge Agreement (Form 4529).

Transmittal of these documents shall be accompanied by a completed Multifamily Defeasance Transmittal Form (Form 4631).

**218.03H Amounts Payable by Borrower**

On or before the Defeasance Close Date, the Borrower must pay to the Servicer an amount equal to the sum of:

- the next scheduled P&I payment due under the Note;
- all other sums then due and payable under the Note, the Security Instrument and any other Loan Document; and
- all costs and expenses incurred by the Servicer in connection with the defeasance, including any out-of-pocket fees and disbursements of the Servicer’s legal counsel.

**218.03I Defeasance Deposit**

If a Fannie Mae investment security will be the substitute collateral, then, on or before 3:00 p.m. ET on the Defeasance Close Date, the Borrower must pay the Defeasance Deposit (reduced by the Defeasance Commitment Fee) to the Servicer to be used by the Servicer, as the Borrower’s agent, to purchase the Fannie Mae Investment Security.

The Borrower or Closing Agent must wire the Defeasance Deposit to Servicer by 3:00 p.m. ET on the Defeasance Closing Date. The Servicer must wire the Defeasance Deposit (reduced by the Defeasance Commitment Fee) to Fannie Mae for receipt by 5:00 p.m. ET on the Defeasance Closing Date.

**218.03J Release**

Upon the Borrower's compliance with the Defeasance requirements, the Property will be released from the lien of the Security Instrument. Upon release of the Property, the Note will be secured by the pledge of the Substitute Collateral.

**218.03K Fannie Mae Security Liquidated Damages**

If the Borrower timely pays the Defeasance Commitment Fee and
the Servicer and the Borrower timely transmit a signed facsimile copy of the
Defeasance Notice, but the Borrower fails to consummate the defeasance,
Fannie Mae shall have the right to retain the Defeasance Commitment Fee
as liquidated damages for the Borrower's default and, subject to the terms
and conditions of the Note, the Borrower shall be released from all further
obligation to defease the Note under the given Defeasance Notice.

**218.03L Third-Party Costs**

In the event that the Defeasance is not consummated on the
Defeasance Closing Date for any reason, the Borrower must reimburse the
Servicer for all third-party costs and expenses incurred by the Servicer in its
reliance on the Defeasance Notice executed by the Borrower, within five (5)
Business Days after the Borrower receives a written demand for this
reimbursement.

**218.03M Post Defeasance Closing Date**

Fannie Mae will transfer the defeased Mortgage Loan from the
Servicer's servicing portfolio effective on the first day of the second month
following the Defeasance Closing Date. The Servicer will be required to
report and remit payments for the next scheduled P&I payment collected as
part of the Defeasance Closing. Thereafter, the Servicer will no longer be
required to perform other servicing requirements for the defeased Mortgage
Loan. Beginning on the 18th calendar day of the second calendar month
after the Defeasance Closing Date (or the next Business Day if such day is
not a Business Day) until the maturity of the Mortgage Loan, the Servicer will
receive the remaining scheduled servicing fee for the Mortgage Loan minus
five (5) basis points provided the Authorization for ACH Remittance (Form
4630) has been submitted.

**Section 219 Delinquency Reporting and Certification**

On the 17th calendar day of each month, Servicers must take the
following actions with respect to Mortgage Loans:

- Report all delinquent Mortgage Loans to Fannie Mae using the
  Delinquency Early Warning System ("DEWS"), which Servicers
  may access through the eServicing System. Delinquency
  reporting must include delinquencies for Mortgage Loans on
  Bond Credit Enhancements, even if the Servicer also elects to
  report these delinquencies through CESIR.

- Certify as to the delinquency status of all Mortgage Loans. If a
  Servicer's Mortgage Loan portfolio does not include any
  delinquent Mortgage Loans, the Servicer must certify to that
  effect.

Prior to the 17th calendar day of each month, Servicers may use
the “Preliminary” Case Status indicator to set up initial delinquency cases in DEWS.

On the 17th calendar day of each month, Servicers must change all "Preliminary" Case Status indicators to "Open" for all Mortgage Loans still delinquent or delete remaining initial cases for all Mortgage Loans that have cured. No “Preliminary” Case Status cases can remain as of the 17th calendar day of each month.

If the 17th calendar day of a month falls on a weekend or holiday, the Servicer must report and certify on the next Business Day.

Servicers must complete the “comments section” in each report with important additional information regarding the delinquent Mortgage Loan including, at a minimum, the following:

- the Servicer’s attempts to contact the delinquent Borrower;
- the cause for the missed payment(s);
- whether payment is expected before the end of the month;
- the likelihood of the Borrower making the next month’s payment;
- if the payment will not be made before the end of the month of default, whether the Borrower will voluntarily turn over the monthly net operating income of the Property;
- the willingness of the Borrower to work with the Servicer to resolve the delinquency; and
- whether the Mortgage Loan is being Special Serviced by Fannie Mae’s Special Asset Management (SAM) group (Primary Risk Mortgage Loans) or the Servicers’ Special Servicing group (Secondary Risk Mortgage Loans).

Servicers must update at least once per week all delinquency reports with an “Open” status indicator.

**Section 220 Reporting Collateral Balances in Custodial Accounts**

Servicers must report, on a quarterly basis, the balances of Mortgage Loan collateral held by Servicers in their Custodial Accounts using Collateral Submission Report (Form 4813). Collateral balances that must be included in the quarterly reporting include balances for all Custodial Accounts whether the collateral is held as cash, securities or letters of credit.

**220.01 P&I Custodial Accounts**

Except as noted in Part V, Chapter 2: Reporting and Remitting, Section 220.04: What to Report, balances in P&I Custodial Accounts are
excluded from this reporting requirement.

**220.02 Letters of Credit as Collateral**

Balances for any original Letters of Credit held by the Servicer must be reported. Balances for any original Letter of Credit held by Fannie Mae are not required to be reported.

**220.03 Report on Fair Value Basis**

If the form of collateral is securities or Letters of Credit, Servicers must report the balances on a fair value basis (the price that would be received to sell an asset in a transaction between market participants).

**220.04 What to Report**

Collateral that must be reported using the Collateral Submission Report (Form 4813) includes:

- **Short Term**
  - any Replacement Reserves or repair escrows;
  - insurance proceeds held pending repair or damage to the Property; or
  - condemnation proceeds received in a condemnation action related to the Property.

- **Long Term**
  - any operating deficit or debt service reserve; or
  - NCF sweeps – to the extent NCF exceeds monthly P&I remitted to Fannie Mae in the ordinary course.

- **Balances in any T&I Custodial Account.**

- **Other**
  - any other escrow, collateral or achievement funds governed by an agreement with the Borrower;
  - any holdback of Mortgage Loan proceeds; or
  - any tenant security deposits held by the Servicer.

**220.05 When to Report**

The Collateral Submission Report (Form 4813) must be submitted to Servicer’s Fannie Mae Representative within thirty (30) days after the end
Section 221  Internal Revenue Service Reporting Requirements

221.01  What to Report

The Servicer must comply with Internal Revenue Service reporting requirements for:

- reporting the receipt of $600 or more of interest payments from any Borrower who is a natural person (IRS Form 1098);
- filing Statements for Recipients of Miscellaneous Income (IRS Form 1099-MISC) to report payments of fees and related expenses to attorneys and other third parties in connection with foreclosure or liquidation proceedings in connection with a Mortgage Loan and the related Property;
- filing notices of Acquisition or Abandonment of Secured Property (IRS Form 1099-A) to report the acquisition of a Property by foreclosure or acceptance of a deed-in-lieu or by a Borrower’s abandonment of a property; and
- filing notices of Cancellation of Debt (IRS Form 1099-C) to report the cancellation of any part of a Borrower’s indebtedness.

Should the Internal Revenue Service change the reporting requirements in connection with any of IRS Form 1098, IRS Form 1099-MISC, IRS Form 1099-A or IRS Form 1099-C, the Servicer must comply with those changed reporting requirements, notwithstanding anything to the contrary contained in this Chapter. The Servicer should contact Fannie Mae if it believes any portion of this Chapter to be in conflict with such Internal Revenue Service reporting requirements.

221.02  Filing IRS Form 1099 MISC

The Servicer must report all attorney (or trustee) fees paid by the Servicer to Servicer-retained attorneys or trustees or to Fannie Mae-retained attorneys or trustees for handling foreclosure proceedings, by filing Form 1099-MISC (Miscellaneous Income) with the Internal Revenue Service and other parties. This form must be filed in the Servicer's name, using its Internal Revenue Service tax identification number.

If the Servicer pays for any expenses authorized by Fannie Mae for the maintenance, repair, or marketing of an REO Property, or when the Servicer pays directly any business that is not a corporation for recurring maintenance costs, minor repair costs, or routine costs in connection with an REO Property, the Servicer must report such payments to the Internal Revenue Service. To accomplish this, the Servicer must prepare an IRS
Form 1099-MISC (Miscellaneous Income) for the appropriate tax year and submit it to the Internal Revenue Service and to the individual payee. This form must be filed in the Servicer's name, using its Internal Revenue Service taxpayer identification number.

### 221.03 Notifying the Internal Revenue Service about Abandonments or Acquisitions (IRS Form 1099-A)

#### 221.03A When Required

The Internal Revenue Service requires that information returns be filed when Fannie Mae (or a third party) acquires an interest in a Property in full or partial satisfaction of the Mortgage Loan or when Fannie Mae or the Servicer has reason to know that a Property has been abandoned. The Servicer must file these notices on Fannie Mae’s behalf, using IRS Form 1099-A (Acquisition or Abandonment of Secured Property), for all applicable Mortgage Loans (including Mortgage Loan participations if Fannie Mae’s percentage ownership of such Mortgage Loan is 50% or greater).

The Servicer must satisfy the reporting requirements for the “owner of record” (instead of on Fannie Mae’s behalf) when the Servicer purchased a delinquent Mortgage Loan from Fannie Mae before the Property was acquired by the Servicer in full or partial satisfaction of the Mortgage Loan.

For purposes of filing these reports:

- Fannie Mae (or the “owner of record”) acquires an interest in the Property when any redemption period that follows a foreclosure sale ends without redemption rights being exercised (or when Fannie Mae accepts a deed-in-lieu of foreclosure);
- A third party acquires an interest in the Property at the foreclosure sale; and
- Abandonment occurs when Fannie Mae or the Servicer has “reason to know” from “all facts and circumstances concerning the status of the Property” that the Borrower intended to discard or has permanently discarded the Property from use. The Servicer, however, will have an additional three months before its reporting obligation arises if the Servicer expects foreclosure proceedings to begin within the three months after determination that abandonment has occurred.

After an event that triggers a reporting requirement occurs, IRS Form 1099-A must be filed on or before February 28 (or March 31 if filing electronically) of the year following the calendar year in which the event occurred. The Servicer also must furnish the Borrower with an information statement on or before January 31 of that year. The requirement for notifying the Borrower can be satisfied by sending Copy B of a completed
Preparing IRS Form 1099-A

The Servicer is responsible for completing the IRS Form 1099-A accurately, for filing it with the Internal Revenue Service, and for providing the information to the Borrower and to Fannie Mae by the required dates. If the Internal Revenue Service penalizes Fannie Mae because a Servicer failed to file a return or filed an incorrect return or late return, Fannie Mae will require the Servicer to reimburse Fannie Mae for any penalty fees the Internal Revenue Service assesses (unless the Servicer can document that it met the filing requirements).

Information that must be reported on IRS Form 1099-A includes:

- the Borrower's taxpayer identification number (the Social Security number if the borrower is a natural person);
- the date of acquisition of an interest in the Property or the date the Servicer acquired knowledge of the abandonment;
- the outstanding UPB of the Mortgage Loan;
- a general description of the Property; and
- whether the Borrower is personally liable for the debt and, if personally liable, the fair market value of the Property at the time of acquisition.

Notifying the Internal Revenue Service about Cancellations of Indebtedness (IRS Form 1099-C)

When Required

The Internal Revenue Service requires certain mortgage holders, including Fannie Mae, to file information returns when $600 or more of a Mortgage Loan is cancelled. Except as provided in Part V, Chapter 2: Reporting and Remitting, Section 221.04D: Exceptions to IRS Form 1099-C Reporting, the Servicer must file these returns on Fannie Mae's behalf, using IRS Form 1099-C, for all applicable Mortgage Loans (including Mortgage Loan participations if Fannie Mae's percentage ownership of such Mortgage Loan is 50% or greater). If, in the same calendar year, a Mortgage Loan is canceled in connection with a foreclosure or abandonment of secured property, it is not necessary to file both Form 1099-A and Form 1099-C.
1099-C for the same Borrower. Only Form 1099-C need be filed, and the Form 1099-A filing requirement for the Borrower will be met by completing boxes 4, 5, and 7 on Form 1099-C.

221.04B Determining When a Debt Is Cancelled

A debt is cancelled (in whole or part) when any of the following occur:

- discharge in bankruptcy under Title 11 of the U.S. Code;
- receivership, foreclosure, or similar federal or state court proceeding makes the debt unenforceable;
- the statute of limitations applicable to collecting the debt expires (if so determined by a court and any appeal period has expired), or expiration of the statutory period for filing a claim or beginning a deficiency judgment proceeding;
- foreclosure remedies by law end or bar Fannie Mae’s right to collect the debt (e.g., foreclosure by exercise of the “power of sale” in the Security Instrument);
- probate or similar proceeding cancels or extinguishes the debt;
- Fannie Mae and the Borrower agree to cancel the debt at less than full consideration;
- a decision or defined policy of Fannie Mae causes collection activity to be discontinued and the debt to be cancelled; or
- expiration of a “non-payment testing period”.

The Internal Revenue Service presumes that a debt is cancelled during a calendar year if no payment has been received on the Mortgage Loan during a period (the “non-payment testing period”) of 36 months, plus the number of calendar months when collection activity was precluded by a stay in bankruptcy or similar bar under state or local law. The presumption may be rebutted, however, if there has been significant, bona fide collection activity at any time during the calendar year, or if facts and circumstances, existing as of January 31 of the calendar year following expiration of the 36-month period, indicate that the indebtedness has not been discharged.

221.04C Preparing IRS Form 1099-C

The Servicer is responsible for completing the Cancellation of Debt (IRS Form 1099-C) accurately, and for filing it with the Internal Revenue Service and providing the information to the Borrower and to Fannie Mae by the required dates. The form must be filed on or before February 28 (or March 31 if filing electronically) of the year following the calendar year in which the discharge of indebtedness occurs.
If the Internal Revenue Service penalizes Fannie Mae because the Servicer failed to file a return or filed an incorrect or late return, Fannie Mae will require the Servicer to reimburse Fannie Mae for any penalty fees the Internal Revenue Service assesses (unless the Servicer can document that it met the filing requirements).

The Servicer also must furnish the Borrower with an information statement before January 31 of that year. The requirement for notifying the Borrower can be satisfied by sending Copy B of a completed IRS Form 1099-C (or a substitute statement that complies with Internal Revenue Service requirements for substitute forms) to the Borrower's last known address, and the Servicer must send Copy C to those states that require it. When the form is filed on Fannie Mae’s behalf, it must show Fannie Mae’s name as the “Creditor,” Fannie Mae’s address and federal identification number (52-0883107), and include a legend identifying the statement as important tax information that is being furnished to the Internal Revenue Service.

Information that must be reported on IRS Form 1099-C includes:

- the Borrower’s name, address, and taxpayer identification number (the Social Security number if the borrower is a natural person);
- the date the debt was cancelled;
- the amount of the cancelled debt, which does not include interest or any amount received in satisfaction of the debt from a foreclosure sale or other means;
- a description of the debt, such as “mortgage loan,” and a description of the Property if a combined IRS Form 1099-C and 1099-A is filed;
- whether the Borrower is personally liable for the debt;
- whether the debt was cancelled in bankruptcy; and
- the fair market value of the Property if a combined IRS Form 1099-C and 1099-A is filed.

If the cancelled Mortgage Loan had an original principal amount of $10,000 or more, was originated after 1994, and involves Borrowers who are jointly and severally liable for the debt, a separate information return for each Borrower must be filed, and each return must report the entire amount of the cancelled debt. If the Mortgage Loan was originated prior to January 1, 1995, or if the original principal amount of the cancelled Mortgage Loan was less than $10,000, and if there are multiple Borrowers, reporting is required only with respect to the primary (or first-named) Borrower. In addition, only one information return is required, regardless of the origination date or the original principal amount, if the Servicer knows, or has reason to know, that co-Borrowers were husband and wife living at the same address when the
Mortgage Loan was originated, and does not know or have reason to know that such circumstances have changed when the Mortgage Loan is cancelled.

221.04D Exceptions to IRS Form 1099-C Reporting

**Interest.** Interest need not be reported. If it is reported as part of the cancelled debt, the IRS Form 1099-C instructions require that it be shown in a separate box on the form.

**Non-principal amounts.** Cancellation of amounts other than stated principal, including penalties, fines, fees, and administrative costs charged to the Borrower, need not be reported.

**Release of a co-Borrower.** IRS Form 1099-C need not be filed when one Borrower is released from a Mortgage Loan as long as the remaining Borrowers are liable for the full UPB of the Mortgage Loan.

**Guarantor or surety.** A guarantor or surety (i.e., any Guarantor or Key Principal executing a Non-Recourse Guaranty or a Payment Guaranty) is not a Borrower for purposes of the debt cancellation reporting requirements, so IRS Form 1099-C is never required.

221.04E Coordination with Reporting Abandonments or Acquisitions

If, in the same calendar year, the Mortgage Loan is cancelled in connection with the acquisition or abandonment of the same Property securing the Mortgage Loan, filing a timely and accurate IRS Form 1099-C will satisfy the requirement to file an IRS Form 1099-A.

221.05 Reporting via Magnetic Media

The Servicer must report IRS Forms 1099-C and 1099-A information on magnetic media and must do so on Fannie Mae's behalf. Even though the Servicer reports to the Internal Revenue Service on magnetic media, it is still responsible for providing a hard copy of the IRS Forms 1099-C or 1099-A, as applicable, to the Borrower (Copy B) and to those states that require it (Copy C). Copy B must be sent to the Borrower no later than January 31.

The Servicer must review each Borrower's Form W-9 for validity and request a new Form W-9 if any form is invalid. A valid W-9 will include the Borrower's name, tax identification number, date, and signature. In preparing Forms 1099-C or 1099-A, the Servicer must (i) utilize the IRS TIN Matching program and perform tax identification number matching for all United States non-exempt Borrowers in all circumstances, (ii) notify Fannie Mae of any Borrower that is identified as an unsuccessful TIN Match prior to preparing Form 1099, and (iii) follow up with any Borrower whose name and tax identification number combination fail the IRS TIN Match. The Servicer should also provide to Fannie Mae its TCC (Transmittal Control Code) at the
beginning of each year, which will allow Fannie Mae to communicate to the Servicer any errors on its 1099 filings.

The Servicer does not need to send Fannie Mae a copy of the magnetic media filed by the Servicer with the Internal Revenue Service. However, to ensure that Fannie Mae can identify the Servicer and the loan number for a specific Mortgage Loan should the Internal Revenue Service contact Fannie Mae for additional information or clarification, the Servicer must:

- insert the following header information when the IRS Form 1099-C or 1099-A, as applicable, is filed on Fannie Mae's behalf:
  - Fannie Mae on the first “Payer” line; and
  - the Fannie Mae loan number for the related Mortgage Loan on the line for the “Payer's account number for Payee”; and

- within thirty (30) days after filing with the Internal Revenue Service, send an email to Fannie Mae at multifamily_1099_reporting@fanniemae.com, containing a summary of IRS Forms 1099-C or 1099-A, as applicable, to notify Fannie Mae what the Servicer reported to the Internal Revenue Service on magnetic media.
Chapter 3  Custodial Accounts

Section 301  Generally

301.01  Maintenance

☑ Requirements

For all funds collected per the Loan Documents, you must:

- establish and maintain the following per this Chapter:
  - P&I Custodial Accounts;
  - T&I Custodial Accounts; and
  - Collateral Agreement Custodial Accounts; and
- maintain strict control of all funds in your custody.

 posto
 Operating Procedures

You must maintain all accounts and related records:

- for all
  - Custodial Accounts,
  - Drafting Accounts, and
  - Clearing Accounts;
- using sound accounting and cash management practices; and
- enabling Fannie Mae to audit them at any time.

301.02  Fannie Mae's Rights

☑ Requirements

Fannie Mae has a security interest in all Mortgage Loan Custodial Accounts and may require you to:

- transfer funds from an institution (even if it is an Eligible Depository) into another Eligible Depository;
- move funds to a trust account;
- ensure funds are fully insured with the FDIC, NCUSIF, or other acceptable governmental insurer or guarantor;
- remit more frequently while allowing funds to remain in the existing Custodial Account; and
- take other actions based on risks, account size, and other factors.

## 301.03 Eligible Depositories and Ratings

### 301.03A Eligible Depository

#### Requirements

You must ensure all Custodial Accounts are demand deposit or money market accounts maintained at an Eligible Depository. An Eligible Depository is:

- a Federal Reserve Bank;
- a Federal Home Loan Bank; or
- depository institution if it complies with the following.

<table>
<thead>
<tr>
<th>Depository Institution...</th>
<th>Must...</th>
</tr>
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<tbody>
<tr>
<td>Accounts</td>
<td>Be insured by the</td>
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<tr>
<td></td>
<td>• Federal Deposit Insurance Corporation, or</td>
</tr>
<tr>
<td></td>
<td>• National Credit Union Share Insurance Fund.</td>
</tr>
<tr>
<td>Rating</td>
<td>Have an applicable Federal or State rating of</td>
</tr>
<tr>
<td></td>
<td>• well capitalized, or</td>
</tr>
<tr>
<td></td>
<td>• if unrated, meet the capital requirements for a well capitalized rating.</td>
</tr>
</tbody>
</table>
### Depository Institution...

#### Minimum Financial Ratings for Assets $20 Billion or More

- If rated by both S&P and Moodys, meet all of the following:
  - for S&P:
    - an A-2 short-term issuer rating; and
    - a BBB long-term issuer rating; and
  - for Moodys:
    - a P-3 short-term bank deposit rating; and
    - a Baa2 long-term bank deposit rating.

- If only rated by S&P, have:
  - an A-2 short-term issuer rating; and
  - a BBB long-term issuer rating.

- If only rated by Moodys, have:
  - a P-3 short-term bank deposit rating; and
  - a Baa2 long-term bank deposit rating.

#### Minimum Financial Ratings for Assets Less than $20 Billion

Meet at least 1 of the following:

- For S&P:
  - an A-2 short-term issuer rating; and
  - a BBB long-term issuer rating.

- For Moodys:
  - a P-3 short-term bank deposit rating; and
  - a Baa2 long-term bank deposit rating.

- For IDC Financial Publishing, Inc., or its successor, a 175.
- For Kroll Bond Rating Agency, Inc., or its successor, a C+.

### Operating Procedures

You may establish the account within your own institution if you

- are an Eligible Depository, and
- do not use your general ledger or internal operating account for Custodial
Accounts.

301.03B Verifying Depository Ratings

Requirements

You must monitor the financial viability of custodial fund depositories.

If a depository or its holding company does not meet the Eligible Depository ratings per Part V, Chapter 3: Custodial Accounts, Section 301.03A: Eligible Depository, you must transfer the Custodial Account to an Eligible Depository within 30 days.

Operating Procedures

To determine an Eligible Depository:

- use the most recent financial ratings issued within the past 3 months; and
- confirm the ratings every 3 months.

301.04 Investments and Interest

Requirements

You must:

- comply with the interest-bearing requirements per the Loan Documents when establishing accounts;
- not invest Custodial Account funds, other than typical demand deposit or money market account earnings (e.g., interest); and
- when required by law or the Loan Documents, pay the Borrower Custodial Account earnings.

Operating Procedures

You may establish interest-bearing Custodial Accounts if:

- they comply with all applicable local, state, and federal laws and regulations regarding Borrower funds;
- funds can be withdrawn on demand without prior notice; and
- either
  - there is no early withdrawal penalty, or
  - the number of withdrawals is limited, but you are responsible for any
Guidance

You may retain any Custodial Account earnings you are not required to pay the Borrower.

### 301.05 Clearing Accounts

**Requirements**

You must:

- not use any Custodial Account as a Clearing Account; and
- establish a Clearing Account per Part V, Chapter 3: Custodial Accounts, Section 306: Clearing Accounts if deposits and disbursements cannot be made directly to or from the Custodial Accounts.

### 301.06 Liability

#### 301.06A Losses

**Requirements**

You are responsible for any:

- Custodial Account losses; and
- damages Fannie Mae suffers due to funding delays, even if you complied with the Guide.

If you incur losses, Fannie Mae will not:

- reimburse them; or
- include them in any Mortgage Loan loss sharing calculation.

#### 301.06B Overdrafts

**Requirements**

You must ensure a Custodial Account is never overdrawn.
If an overdraft occurs, you must advance your own funds within 1 Business Day to cure the overdraft.

Section 302  Administration

302.01  Notifications

Operating Procedures

Within 30 days of opening or closing a Custodial Account, or changing the Eligible Depository or Custodial Account information:

Step 1: You and the depository institution must execute the applicable:

- Letter of Authorization for Multifamily P&I Custodial Account (Form 2050);
- Letter of Authorization for Multifamily T&I Custodial Account (Form 2052); or
- Letter of Authorization for Multifamily Collateral Agreement Custodial Account (Form 2051).

Step 2: You must submit the executed document per the form’s instructions.

302.02  Titling

Operating Procedures

You must:

- Ensure all Custodial Accounts are titled:

  [You], as agent, trustee, and/or bailee for Fannie Mae and/or payments of various mortgagors and/or various owners of interests in mortgage-backed securities (Custodial Account).

- Submit:

  - a copy of a
    - signature card,
    - bank statement, or
    - system generated screen print; and

  - the applicable Letter of Authorization per Part V, Chapter 3: Custodial Accounts, Section 302.01: Notifications.
_deposit_requirements

You must deposit any funds no later than the second Business Day (including any time funds are in a Clearing Account or general ledger account) after receiving them.

_operating_procedures

For deposits:

- Establish a daily cutoff ensuring collections are credited to the appropriate Custodial Account no later than the Business Day after receiving them.

- Ensure collections deposited to the Clearing Account are credited to the applicable Custodial Account by:
  - for non-ACH funds, the first Business Day after receiving them; or
  - for ACH funds, the second Business Day after receiving them, but this does not extend your deadline to remit funds to Fannie Mae.

section_303

P&I Custodial Accounts

_accounts_and_deposits

You must:

- Maintain 1 separate P&I Custodial Account for each of these Mortgage Loan categories:
  - Cash Mortgage Loans and PFP Mortgage Loans;
  - MBS Mortgage Loans, including
    - MBS Mortgage Loans issued using a REMIC election after January 1, 2021, and
    - MBS for Bonds;
  - Credit Enhancement Mortgage Loans or transactions with Credit Enhancement Instruments;
  - REMIC transactions submitted in the Multifamily Negotiated Transactions (MFNT) application; and
  - any other Securitized Mortgage Loans.
Not commingle P&I Custodial Account funds among the Mortgage Loan categories. For example, P&I funds for an MBS Mortgage Loan may not be commingled with P&I funds for a Cash Mortgage Loan, even for the same Borrower.

Use P&I Custodial Accounts for all Borrower P&I Mortgage Loan payments, including any
- unscheduled principal or interest payments,
- Delinquency Advances, or
- recovered Delinquency Advances.

 Guidance

You may commingle P&I funds for all Mortgage Loans within the same Mortgage Loan category.

### 303.02 Withdrawals

**Requirements**

You must only withdraw funds from the P&I Custodial Account to:

- Remit funds to Fannie Mae.
- Reimburse a Delinquency Advance recovered from subsequent collections.
- Remove funds erroneously deposited.
- Transfer interest or typical demand deposit or money market account earnings.
- Pay the Guaranty Fee (unless you received a notice of default from any Security Trust Indenture guarantor).
- Remove fees, charges, or other amounts deposited on a temporary basis, including
  - late charges,
  - Servicing Fees, or
  - unsecuritized excess spread (i.e., when a Mortgage Loan's Pass-Through Rate is greater than the MBS Pool's Pass-Through Rate).
- Clear and close the account.
- Transfer any funds to 1 or more other Custodial Accounts per this Chapter.
**Section 304  T&I Custodial Accounts**

**304.01  Deposits**

**Requirements**

You must:

- use T&I Custodial Accounts for
  - all Borrower payments for T&I Impositions per Part V, Chapter 3: Custodial Accounts, Section 304.02: T&I Impositions, and
  - Servicing Advances you make for these items; and

- not commingle T&I Custodial Account funds with
  - P&I Custodial Account funds, or
  - Collateral Agreement Custodial Account funds.

**Operating Procedures**

You may establish:

- 1 T&I Custodial Account for all T&I deposits from all Mortgage Loans; or
- 2 separate T&I Custodial Accounts, with funds for all
  - Cash Mortgage Loans in 1 T&I Custodial Account, and
  - Securitized Mortgage Loans in the other T&I Custodial Account.

You must obtain Fannie Mae’s consent to establish a separate T&I Custodial Account for an individual

- Mortgage Loan, or
- Borrower.

**304.02  T&I Impositions**

**Requirements**

Unless precluded by the Loan Documents, you must:

- collect monthly payments from the Borrower;
- ensure all T&I Impositions are timely paid, including:
- real estate taxes;
- special assessments;
- water and sewer assessments;
- PILOTs;
- insurance premiums;
- ground lease rents; and
- all other charges or obligations that could become a Lien against the Property; and

- pay any penalty or late fee if you fail to make timely payments.

 Guidance

You may:

- Charge the Borrower for any penalty or late fee incurred if the failure to timely pay was due to insufficient T&I Custodial Account funds.
- Use qualified third-party vendors (that you manage and monitor) to
  - collect T&I Custodial Account funds, and
  - pay T&I Impositions.

### 304.03 Shortfalls

**Requirements**

T&I Custodial Account shortfalls must be paid by

- the Borrower, or
- you (i.e., a Servicing Advance).

### 304.04 Prohibited Uses

**Requirements**

You must not use any T&I Custodial Account funds to:

- supplement a shortfall in the Borrower's monthly P&I payment to Fannie Mae;
- reimburse yourself for any Servicing Advance unless it is recovered from
subsequent collections for that Mortgage Loan; or
- supplement a shortfall in a Borrower's taxes or insurance payment using another Borrower's tax or insurance deposits.

 Guidance

You may use a Borrower's own tax or insurance deposits to cover a shortfall in the Borrower's tax or insurance obligation if you adjust future deposits per Part V, Chapter 3: Custodial Accounts, Section 308.04B: Insufficient Funds.

304.05 No Financing for T&I Impositions

Requirements

To pay any T&I Impositions, you must not
- provide financing to the Borrower, or
- allow the Borrower to obtain financing.

Section 305 Collateral Agreement Custodial Accounts

305.01 Deposits

Requirements

If required by the Loan Documents, you must establish Collateral Agreement Custodial Accounts for the Borrower's deposits for any:
- Completion/Repair Escrow;
- Replacement Reserve;
- operating deficit escrow; and
- other Collateral Agreement escrow.

Operating Procedures

You may establish
- 1 account for all Collateral Agreement deposits, or
- a separate Custodial Account for each:
  - Mortgage Loan;
Collateral Agreement type;
Borrower; or
Collateral Agreement.

305.02 Full Disbursement

Operating Procedures

You must close the Custodial Account per Part V, Chapter 3: Custodial Accounts, Section 302.01: Notifications after you

- complied with the Collateral Agreement, and
- disbursed all Custodial Account funds.

Section 306 Clearing Accounts

Requirements

When establishing a Clearing Account, you must:

- use an Eligible Depository;
- title the account to reflect it is custodial; and
- inform the depository in writing it is a custodial account.

Operating Procedures

If you use a Clearing Account for deposits and disbursements, you:

- must establish a separate account for collections and disbursements;
- may use debit and credit memos to transfer funds between the Clearing Account and the Custodial Account; and
- are not required to title the Clearing Account in Fannie Mae’s name, but your records must show Fannie Mae’s interest in the deposits.

Guidance

All Clearing Accounts should have a zero balance at the close of each Business Day.

Section 307 Drafting Accounts
Establishing Drafting Accounts

**Guidance**

You may use Drafting Accounts to simplify transferring funds to Fannie Mae.

**Requirements**

You must comply with Part V, Chapter 3: Custodial Accounts, Section 306: Clearing Accounts when establishing a Drafting Account.

Consolidated Custodial Accounts

**Requirements**

<table>
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<tr>
<th>Topic</th>
<th>You must...</th>
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</thead>
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<td>Securitized Mortgage Loans (Other Than PFP MBS)</td>
<td>Use separate consolidated Custodial Accounts for drafting:</td>
</tr>
<tr>
<td></td>
<td>• P&amp;I remittances for Securitized Mortgage Loans (other than PFP MBS); and</td>
</tr>
<tr>
<td></td>
<td>• remittances for all Mortgage Loan categories per Part V, Chapter 3: Custodial Accounts, Section 303.01: Accounts and Deposits.</td>
</tr>
<tr>
<td>Corporate/General Lender Accounts</td>
<td>Not designate your corporate, general ledger, or other internal operating account as a Drafting Account.</td>
</tr>
<tr>
<td>Records</td>
<td>Maintain records of the commingled fund sources on an individual Mortgage Loan basis.</td>
</tr>
</tbody>
</table>

**Operating Procedures**

<table>
<thead>
<tr>
<th>Topic</th>
<th>You...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishing Accounts</td>
<td>Must submit a Letter of Authorization (Form 2050).</td>
</tr>
<tr>
<td>Timely Remittance</td>
<td>Must move all funds due into the account to ensure timely remittance to Fannie Mae.</td>
</tr>
<tr>
<td>Topic</td>
<td>You...</td>
</tr>
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<td>------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Cash Mortgage Loans</td>
<td>May temporarily commingle P&amp;I funds for all Cash Mortgage Loan categories per Part V, Chapter 3: Custodial Accounts, Section 303.01: Accounts and Deposits into 1 consolidated Drafting Account under your master 5-digit Servicer number.</td>
</tr>
<tr>
<td>Securitized Mortgage Loans</td>
<td>May temporarily commingle P&amp;I funds for all Securitized Mortgage Loan categories per Part V, Chapter 3: Custodial Accounts, Section 303.01: Accounts and Deposits into 1 consolidated Drafting Account under your master 5-digit Servicer number.</td>
</tr>
<tr>
<td>P&amp;I Funds</td>
<td>May designate 1 Drafting Account for P&amp;I funds for each Mortgage Loan category per Part V, Chapter 3: Custodial Accounts, Section 303.01: Accounts and Deposits under each of your 9-digit Servicer numbers.</td>
</tr>
<tr>
<td>Commingling Timing</td>
<td>Cannot commingle funds earlier than 1 Business Day before the funds will be drafted.</td>
</tr>
<tr>
<td>System</td>
<td>Must, for both Cash Mortgage Loans and Securitized Mortgage Loans, use the Cash Remittance System to designate specific Custodial Accounts from which Fannie Mae remittances can be automatically drafted per Part V, Chapter 2: Reporting and Remitting, Section 209.03: Cash Remittance System.</td>
</tr>
</tbody>
</table>

### Section 308 Recordkeeping and Reconciliations

#### 308.01 Account Analysis and Reconciliation

- **Requirements**
  
  You must analyze and reconcile each Custodial Account and associated Clearing Accounts monthly.

- **Operating Procedures**
  
  At a minimum, your reconciliation must include:
  
  - a depository reconciliation;
  - the cashbook balance composition; and
  - an explanation of line items.
Fannie Mae may review your reconciliation including:

- an explanation of any adjustments you made;
- the specific cashbook balances; and
- any individual components.

While Fannie Mae does not prescribe a recordkeeping method to generate a cashbook balance, you must:

- maintain the integrity of the Custodial Account balances reported on your reconciliations;
- be able to substantiate each cashbook component; and
- retain sufficient detail to perform the following cashbook computation:

<table>
<thead>
<tr>
<th>Function</th>
<th>Beginning Cashbook Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>+</td>
<td>Receipts</td>
</tr>
<tr>
<td>-</td>
<td>Disbursements</td>
</tr>
<tr>
<td>+/-</td>
<td>Cashbook Adjustments</td>
</tr>
<tr>
<td>=</td>
<td>Ending Cashbook Balance</td>
</tr>
</tbody>
</table>

### 308.02 Records

**Operating Procedures**

You must maintain adequate documentation supporting the Borrower's payment records, including Clearing Account credits and charges.

### 308.03 For T&I Custodial Accounts

**Requirements**

You must maintain and administer all Borrower funds held in a T&I Custodial Account on an individual Mortgage Loan basis.

**Operating Procedures**

At a minimum, for each Mortgage Loan in a T&I Custodial Account, you must account for:

- T&I Imposition payment deadlines and amounts funded from the account;
- monthly funds due for deposit;
308.04 Borrower's T&I Impositions and Custodial Accounts

308.04A Analysis Timing

**Operating Procedures**

You must:

- Analyze your T&I Custodial Account records:
  - annually for each Mortgage Loan; and
  - when a material change occurs in a Borrower's T&I Impositions.

- Determine if the Borrower's T&I Custodial Account funds, plus the Borrower's required monthly deposits, are sufficient to timely pay all upcoming T&I Impositions.

308.04B Insufficient Funds

**Operating Procedures**

If the Borrower's T&I Custodial Account funds are insufficient to timely pay all T&I Impositions, you must

- bill the Borrower for any shortage, and/or
- increase the Borrower's monthly T&I Custodial Account deposit.

After adjusting the Borrower's future deposits, you may use those funds for a shortfall in either taxes or insurance.

308.04C Surplus

**Requirements**

You must not maintain a surplus of more than 2 monthly T&I payments in the T&I Custodial Account.

**Operating Procedures**

If the T&I Custodial Account has a surplus of more than 2 monthly T&I payments, you must:
- refund the Borrower the amount of the surplus above the 2 monthly T&I payments; or
- reduce the Borrower’s required monthly T&I Custodial Account deposit to reduce the surplus to no more than 2 monthly T&I payments within 12 months.

You cannot refund any T&I Custodial Account surplus if the Borrower or any other party has defaulted under any of the Loan Documents beyond any grace or cure period.

**308.05 Annual Statements**

**Operating Procedures**

By January 31st of each year, you must issue the Borrower a T&I Custodial Account statement reporting all activity during the preceding calendar year. You can provide this statement

- in writing, or
- via electronic access.

**Guidance**

Your annual T&I Custodial Account statement must include:

- Borrower’s fund balance at the beginning of the year;
- total Borrower deposits into the account;
- total withdrawals you made;
- itemized list of specific T&I Impositions and other charges (e.g., real estate taxes, insurance premiums, etc.) you paid with the withdrawals;
- Borrower’s fund balance at the end of the year; and
- amount of interest, if any, paid or credited to the Borrower on their funds.
Chapter 4  Asset Management: Loan Document Administration

Section 401  Servicing Requirements

401.01  General

This Chapter covers asset management of performing Mortgage Loans. This Chapter does not apply to Non-Performing Mortgage Loans, unless otherwise stated. For asset management of Non-Performing Mortgage Loans, the Servicer must comply with Part V, Chapter 6: Watchlist Management and Part V, Chapter 7: Non-Performing Mortgage Loans. This Chapter covers the Servicer's:

- administration of Loan Documents, including Collateral Agreements;
- review of a delegated and non-delegated Borrower request;
- approval of a delegated Borrower request;
- management of insurance matters;
- review of Transfer/Assumption requests; and
- administration of specialty product types.

The Servicer must submit all Borrower requests, along with any additional information and required documents, through the MAMP. If submitting through the MAMP is not feasible, overnight mail must be used and sent to:

Fannie Mae
Attention: (Drawer AM, Structured AM, Seniors AM, or Assumption/Transfer)
Mailstop 8V-21
1100 15th Street, NW
Washington, DC  20005.

Fannie Mae email addresses and contact information for notices required in this Chapter are located in the Glossary.

401.02  Monitoring Compliance with Loan Documents

For each Mortgage Loan, the Servicer must monitor the Borrower’s compliance with the terms and conditions of the Loan Documents, and facilitate compliance or take appropriate actions to address any instance of noncompliance. All Loan Documents and all other documents required to be retained by the Servicer must be maintained in accordance with the Program Rules.

In the event of any conflict between or among the
requirements of the Guide, the Disclosure Documents, the Lender Contract, and the Loan Documents, the governing priority shall be, in order:

- Loan Documents;
- Disclosure Documents;
- Lender Contract; and
- Guide.

**Section 402** Delegation of Decision-Making Authority; Retention of Outside Legal Counsel

### 402.01 Delegation of Decision-Making Authority

Fannie Mae delegates significant decision-making authority and responsibility to the Servicer to the extent specified in the Multifamily Asset Management Delegated Transaction Forms (Form 4636 series) (each, the “Delegated Transaction Form”), covering the following matters:

- Transfers/Assumptions (Form 4636.TA);
- Commercial Leases (Form 4636.CL);
- Condemnations (Form 4636.C);
- Condominium/Cooperative Property Conversions (Form 4636.CC);
- Easements (Form 4636.E);
- Oil, Gas, or Mineral Rights Leases (Form 4636.OGL);
- Partial Releases of Collateral (Form 4636.PR);
- Property Management Changes (Form 4636.PM); and
- Use Conversions (Form 4636.UC).

The Servicer must follow the instructions in the Delegated Transaction Form, which will specify which matters are delegated and which are non-delegated. All delegated and non-delegated requests must be submitted through the MAMP, with the Delegated Transaction Form and the required supporting documents.

A transaction memo must be submitted for any unusual matters not covered in the Guide, or matters that could materially affect Fannie Mae’s security interests, investment interests, or the interests of Investors in Securitized Mortgage Loans. Decision-making authority is more limited for Credit Facilities, Bulk Deliveries, and certain Seniors Housing Loan matters.
Neither the Servicer nor Fannie Mae has the authority to waive any local, state, or federal law or regulation.

402.02 Retention of Outside Legal Counsel

Fannie Mae often retains outside legal counsel to review non-delegated matters or other matters that require Fannie Mae’s legal review. In such instance, the Servicer must obtain the Borrower’s written agreement to pay the reasonable legal fees and expenses of Fannie Mae’s counsel before any legal work may commence.

If Fannie Mae outside counsel review is required or requested, the Borrower must pay the applicable legal fee, which will either be a fixed fee or an estimated fee depending on the type of request. For an estimated fee request, the Servicer must notify the Borrower that the actual legal fee may be higher or lower than the estimate, depending on the ultimate scope of the request, and the time needed to resolve the issue.

Fannie Mae will:

- apprise the Servicer of any likely increases in the estimated review fee;
- provide the Servicer the amount of the fee for any fixed fee request; and
- provide the Servicer a summary invoice directly from Fannie Mae’s outside counsel.

Upon receipt of the invoice, the Servicer must arrange for payment of Fannie Mae’s legal fees. The legal fee must be collected from the Borrower before engaging Fannie Mae outside counsel.

Section 403 Execution of Documents by Servicer – Limited Power of Attorney

Fannie Mae may provide the Servicer with a Limited Power of Attorney conferring the right to execute certain documents as attorney-in-fact on behalf of Fannie Mae. If granted, the actions authorized in the Limited Power of Attorney will be specifically limited, and allow the Servicer to execute only those documents listed in the Limited Power of Attorney. To exercise the Limited Power of Attorney the Servicer must execute documents as “[Name of Servicer], as Attorney-in-Fact for Fannie Mae”. The Servicer’s designation as attorney-in-fact will be subject to review and renewal, and the power granted under the Limited Power of Attorney may be revoked by Fannie Mae at any time. Requests for new and replacement Limited Power of Attorney should be submitted through the MAMP or as required by Part V, Chapter 4: Asset Management: Loan Document Administration, Section 401.01: General. As each Limited Power of
Section 404  Execution of Documents by Fannie Mae

404.01  Submission of Documents to Fannie Mae

All documents requiring execution by Fannie Mae (clearly identified by Fannie Mae Loan Number) must be sent to Multifamily Asset Management. Fannie Mae will execute the documents without prior review if the Servicer provides the certifications described in this Section.

The Servicer must include directions for returning the documents, including:

- contact name;
- overnight delivery mailing address;
- phone number; and
- email address.

404.02  Servicer Certification When Fannie Mae Approval Is Not Required

For any document submitted to Fannie Mae for execution when the servicing decision has been delegated to the Servicer, the Servicer must provide written certification to Fannie Mae that:

- the Servicer has reviewed the proposed transaction, and approval by the Servicer is in compliance with the Guide, the Loan Documents, any Disclosure Documents, and the Lender Contract;
- the Servicer has approved the proposed transaction;
- no approval or waiver is required from Fannie Mae;
- Servicer’s legal counsel has reviewed and approved all relevant documents associated with the transaction, and determined that those documents are sufficient to fully effectuate the transaction; and
- any material changes to Fannie Mae form Loan Documents have been approved by Fannie Mae.

404.03  Servicer Certification When Fannie Mae Approval Is Required

For any document submitted to Fannie Mae for execution when the servicing decision has not been delegated to the Servicer, the Servicer must

Attorney expires on a specified date according to its terms, the Servicer must monitor the expiration date and request a new Limited Power of Attorney at least 30 days prior to the expiration date.
provide written certification to Fannie Mae that:

- the Servicer has reviewed the proposed transaction, and approval by the Servicer is not delegated under the Guide;
- the Servicer recommends approval by Fannie Mae of the proposed transaction;
- any required waivers have been submitted by the Servicer;
- Servicer’s legal counsel has reviewed and approved all relevant documents associated with the transaction, and determined that those documents are sufficient to fully effectuate the transaction; and
- any material changes to Fannie Mae form Loan Documents have been approved by Fannie Mae.

**Section 405  Fees Due to Fannie Mae**

Certain fees may be due to Fannie Mae in connection with a Borrower servicing request. The specified fees are for typical requests; however, higher fees may be required for complicated or non-standard requests, or for other matters not specified in this Chapter. No later than 10 Business Days following receipt of any fee by the Servicer, the Servicer must remit to Fannie Mae, by wire transfer of immediately available funds, Fannie Mae’s portion of the fee. The Servicer must submit the wire transfer confirmation number, wire date, and wire amount through the MAMP immediately following each funds transfer, as follows:

ABA Number:  021 039 500  
Telegraphic Abbreviation:  FNMA/NYC  
Account Number:  169220242  
Note:  Type of fee (e.g., Assumption/Transfer), Fannie Mae Loan Number and Property Name  
Attention:  Trans code 507 - GL 747669921.

**Section 406  Follow-Up Actions by the Servicer**

The Servicer must take all applicable actions required to fully effectuate the transaction, including:

- amending the recorded Security Instrument or filed Uniform Commercial Code (UCC) financing statements;
- updating the Property survey;
- obtaining an endorsement to the mortgagee’s title insurance policy showing no impairment of Fannie Mae’s Lien position, and dating down title to reflect any recorded amendment to the Security Instrument;
- recording all applicable documents, and sending the required documents
through the MAMP;

- sending an executed original copy of any new or amended Loan Document to Multifamily Certification and Custody within 15 Business Days;

- following the requirements of Part V, Chapter 3: Custodial Accounts, Section 301: Generally if changes are required to any existing Collateral Agreement Custodial Account, or if any new Collateral Agreement Custodial Account must be established in connection with the transaction;

- retaining copies of all documents, correspondence, and any internal notes or analysis relating to the transaction in the Servicing File; and

- taking any other actions the Servicer or its legal counsel determines are necessary.

Section 407 Subordinate Financing

407.01 Non-Fannie Mae Subordinate Financing

A Subordinate Loan is generally not permitted unless it complies with Fannie Mae’s requirements. Approval of any Subordinate Loan is not delegated to the Servicer and must be approved in advance by Fannie Mae. Additionally:

- with respect to any Subordinate Loan, the Servicer must abide by the terms and conditions of the Loan Documents, the Guide, and any Disclosure Documents, provided that the Loan Documents will control in the case of any conflict;

- unless the Loan Documents explicitly allow a Subordinate Loan, the Servicer must not permit the Borrower, without prior Fannie Mae approval, to incur the Subordinate Loan or allow a Lien securing the Subordinate Loan to be placed against the Property;

- if the Loan Documents explicitly allow a Subordinate Loan without the approval of the Lender, the consent of the Servicer or Fannie Mae is not required; however, notice of the Subordinate Loan and a copy of any documents must be submitted through the MAMP;

- the Borrower and the subordinate lender must enter into and record the appropriate Subordination Agreement (Form 6414 or Form 6456 for the 6000 series Loan Documents; Form 4503 or Form 4507 for the 4000 Series Loan Documents); and

- the proceeds of the Subordinate Loan must benefit the Property (i.e., cash-out financing is not permitted).
The Servicer must immediately notify Multifamily Asset Management in writing upon learning of any unauthorized additional unsecured debt or indebtedness secured by a Lien on the Property or of any pledge of ownership interests that is not permitted by the Loan Documents, and send the Borrower a Reservation of Rights Letter (Form 4804) with a copy submitted through the MAMP. Fannie Mae will determine whether to approve the Subordinate Loan, or exercise its remedies.

### 407.02 Prerequisite for Subordinate Financing

Part III, Chapter 14: Supplemental Mortgage Loans, contains the requirements for Supplemental Mortgage Loans, and Part III, Chapter 7: Multifamily Affordable Housing Properties contains additional requirements for subordinate financing with respect to a Multifamily Affordable Housing Property. The Servicer must ensure adherence to all applicable requirements.

### 407.03 Fees for Subordinate Financing

The Borrower must pay the Servicer a $2,500 review fee. The Servicer may increase or decrease its fee at its discretion. No Fannie Mae review fees are due. The Servicer may also seek reimbursement from the Borrower for all reasonable out-of-pocket costs, including reasonable legal fees incurred by Servicer’s counsel.

If Fannie Mae outside counsel is engaged, the Borrower must pay its fee, estimated at $2,500 for Subordinate Financing requests. The actual legal fee may be higher or lower, depending on the ultimate scope of the request and the time necessary to resolve. The Servicer will receive a summary invoice directly from Fannie Mae outside counsel and must arrange for payment. The Servicer will be apprised of any likely increases in the estimated review fee. The estimated legal fee must be collected from the Borrower before engaging Fannie Mae outside counsel.

### 407.04 Submitting the Request for Subordinate Financing

Any Borrower request for approval of a Subordinate Loan must be reviewed by the Servicer. If acceptable, the request must be submitted for approval through the MAMP in accordance with the following:

- the Servicer must submit the request to Fannie Mae at least 30 days before the projected closing date of the Subordinate Loan; and

- the submission must contain:
  - an Appraisal (obtained at the Borrower’s cost), dated no earlier than 90 days prior to the date of the Borrower request for approval of the Subordinate Loan, that complies
with Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation;

- Servicer’s underwriting spreadsheet showing the Subordinate Loan’s effect on the Property’s income, expenses, NCF, DSCR, and LTV;

- a copy of the final, unsigned loan documents evidencing the Subordinate Loan, with the loan amount, interest rate, payment schedules, and all other transaction related information completed;

- the MBA Standard Inspection Form documenting a physical inspection of the Property, performed at Borrower’s expense, occurring no earlier than 90 days before the date of the Borrower request for the Subordinate Loan; provided that, if the Servicer’s inspection of the Property reveals that the Property is not being properly maintained, the Borrower request will not be approved by Fannie Mae unless:
  - a Replacement Reserve is sufficiently funded; and
  - the Borrower makes any immediate repairs identified by the Servicer prior to the closing date of the Subordinate Loan; and

- a title policy endorsement for the Property showing no unauthorized Liens or encumbrances of any nature against the Property.

For a Cooperative Property, the Subordinate Loan is unacceptable if the potential increase in the Cooperative Maintenance Fee necessary to cover P&I on the Subordinate Loan exceeds 10% of the current Cooperative Maintenance Fee.

407.05 Fannie Mae Approval and Execution

Fannie Mae will provide the Servicer with a written decision regarding the Borrower request, after which the Servicer must notify the Borrower in writing and retain the notice in the Servicing File.

407.06 Subsequent Servicer Actions

The Servicer must:

- not permit any changes to the form Subordination Agreement (Form 6414 or Form 6456 for the 6000 series Loan Documents; Form 4503 or Form 4507 for the 4000 series Loan Documents) without the prior written consent of Fannie Mae;
obtain a satisfactory title policy endorsement effective as of the
date of recordation of the subordinate security instrument that:

- insures the Lien of the Security Instrument as senior to the
  Lien of the subordinate security instrument; and
- reflects the recordation of the Subordination Agreement;

- submit a copy of the recorded Subordination Agreement
  through the MAMP; and

- send the original executed copy of the recorded Subordination
  Agreement and the title policy endorsement to Multifamily
  Certification and Custody within 15 Business Days, and retain
  copies of each in the Servicing File.

Section 408  Administration of Collateral Agreements

408.01 General Administrative Requirements

408.01A Administration of Funds

The Servicer must:

- administer and manage funds or collateral under all Collateral
  Agreements; and

- ensure that any disbursements of funds, or other collateral
  releases or reductions, are:

  - approved only for valid reasons;
  - appropriately documented; and
  - consistent with the provisions of the Collateral Agreement
    and this Section.

408.01B Funds to be Held in a Custodial Account

The Servicer must deposit funds held under a Collateral
Agreement in a Custodial Account that meets the requirements of Part V,
Chapter 3: Custodial Accounts.

408.01C Use of Funds

Funds must be used only for the purposes stated in the Collateral
Agreement, and must not supplement a partial P&I payment or cover any
other Borrower obligation unrelated to the primary purposes of the Collateral
Agreement.
**408.01D  Funds as Additional Security for Mortgage Loan**

All funds or other collateral held under a Collateral Agreement constitute additional security for the Borrower’s obligations under the Note and the other Loan Documents. In the event of a default under the Loan Documents, Fannie Mae reserves the right to apply (or direct the Servicer to apply) the funds or other collateral held under any Collateral Agreement in any manner allowed under the terms of such Collateral Agreement. **Following a default, unless instructed by Fannie Mae, the Servicer must not:**

- release any funds or other collateral held under a Collateral Agreement;
- apply any funds or collateral to the repayment of the Mortgage Loan; or
- reimburse itself from such funds or collateral for any expenses or losses incurred by the Servicer.

**408.01E  Servicer’s Fees and Costs**

If the Collateral Agreement contemplates the payment of fees or costs by the Borrower, the Servicer may collect and retain such fees or costs for its own account, adhering to any specific billing provisions of the Collateral Agreement. Any fees or costs retained by the Servicer must be reasonable in relation to the nature and scope of the services provided by or on behalf of the Servicer. The Servicer must not use any of the funds or other collateral held under the Collateral Agreement to cover such fees or costs. However, the Servicer may deduct such fees or costs from any disbursement of funds to the Borrower, provided such disbursements, fees, and costs are permitted under the Collateral Agreement, or if the Borrower otherwise agrees in writing.

**408.01F  Waiver or Modification of Terms of Collateral Agreement**

Except as noted in this Chapter, the Servicer must not waive or modify the terms of any Collateral Agreement.

**408.02  Achievement Agreement or Other Agreement for Additional Collateral**

**408.02A  General**

The provisions of this Section govern Achievement Agreements and all Collateral Agreements, other than:

- Multifamily Loan Agreements, including the Completion/Repair Schedule and Replacement Reserve Schedule;
Security Instruments;
Replacement Reserve Agreements; and
Completion/Repair Agreements.

The Servicer must maintain an effective system for monitoring the expiration date of any Achievement Agreement or other Collateral Agreement, and ensure that all actions required to be taken pursuant to any such agreement have been timely performed and, if not timely performed, immediately notify Multifamily Asset Management.

408.02B Releases or Reductions in Collateral

Any request for a release or reduction of collateral must be processed in accordance with this Section, unless these instructions conflict with the terms and conditions of the Achievement Agreement or other Collateral Agreement.

1. General

If the Borrower has not satisfied the requirements for a release or reduction of collateral contained in the Achievement Agreement or other Collateral Agreement, the Servicer must not approve the Borrower request, and may decline the Borrower request without notice to Fannie Mae. If the Servicer determines that the Borrower has satisfied the requirements of the Achievement Agreement or other Collateral Agreement, the Servicer must recommend the release or reduction of collateral through the MAMP, accompanied by the supporting documentation listed below. Upon receipt and review of all pertinent information, Fannie Mae will approve or deny the request and notify the Servicer of its decision.

2. Supporting Documentation and Analysis

The following documentation must be submitted through the MAMP, and maintained in the Servicing File, in connection with each request for a release or reduction of collateral:

(a) Income and Expense Statements; Current Rent Roll

Property income and expense statements and a current rent roll must be obtained from, and certified by, the Borrower. The statements must cover the applicable period required by the Achievement Agreement or other Collateral Agreement. Based on the Loan Documents, Parts I - III, the certified income and expense statements, and the current rent roll, the Servicer must develop a Net Cash Flow estimate to determine whether the release or reduction provisions of the applicable Achievement Agreement or other Collateral Agreement are satisfied. The income, vacancy, collection loss,
and concession information should support the Effective Gross Income that the Servicer is relying on in assessing whether a release or reduction is warranted.

In deriving its estimate of Effective Gross Income, the Servicer must adjust for:

- income that was not allowed or recognized in the original underwriting;
- the effect of a partial year’s performance when the shorter period reflects the short-term, positive impact from seasonal variations that do not reflect the Property’s year-round performance; and
- non-monetary concessions, requiring the Servicer to deduct the pro-rata value of the concession from the monthly rent for the applicable unit.

The Servicer must ensure that all appropriate types of expenses, including underwritten Replacement Reserve deposits, are included, and that any inappropriate expenses (e.g., capital improvement costs, repair costs covered by funds set aside for Completion/Repairs, partnership costs, etc.) are excluded. To avoid unwarranted releases or reductions of collateral, the expense figures must reflect stabilized operating conditions, and must not be understated due to efficiencies or savings that could not be replicated by a different owner or manager, or that would not be recognized for underwriting purposes.

The Servicer must perform a line-by-line expense analysis, including a comparison of the original underwriting estimates with the actual expenses shown on the Borrower’s income and expense statements. The Servicer must use the greater of the underwritten or the actual expense figure shown for each item on the Borrower’s statement.

**(b) Servicer’s Analysis**

The Servicer must provide an analysis and recommendation regarding the release or reduction of collateral, including any calculations required under the terms of the applicable Achievement Agreement or other Collateral Agreement.

**(c) Correspondence**

The Servicer must provide any correspondence with the Borrower that pertains to the release or reduction request.
3. Property Inspection

Before approving any request for a release or reduction of collateral, the Servicer must perform a physical inspection of the Property to verify that:

- no deferred maintenance exists;
- necessary capital improvements have been made; and
- the general management and operations are acceptable and characteristic of a stabilized project.

The Servicer’s inspection must occur no more than 90 days prior to the date of the submission to Fannie Mae of the release or reduction request. The Servicer must document the results of its inspection by completing the MBA Standard Inspection Form.

408.02C Draws on Letters of Credit or Application of Other Collateral

1. Draws Triggered by Adverse Events

The Servicer must promptly notify Multifamily Asset Management when any of the following events occur, which could result in a draw on a Letter of Credit issued for an Achievement Agreement or other Collateral Agreement:

- a default under the Loan Documents, including the Achievement Agreement or other Collateral Agreement;
- the failure to renew or replace an expiring Letter of Credit at least 30 days prior to its expiration date, or other deadline specified in the Achievement Agreement or other Collateral Agreement; or
- the failure to replace a Letter of Credit by the replacement deadline when the Issuer is no longer acceptably rated.

The Servicer’s notice to Fannie Mae must include a recommended course of action, and be accompanied by a copy of the executed Achievement Agreement or other Collateral Agreement.

2. Draw Resulting from Noncompliance with Issuer Rating Requirements or Expiration of Letter of Credit

If a draw on the Letter of Credit occurs due to noncompliance with the rating requirements for the Issuer or because of an imminent expiration of the Letter of Credit, Fannie Mae will hold the Letter of Credit proceeds in its designated account until the earliest of the following:

- the Borrower presents a replacement Letter of Credit and Fannie Mae agrees, in its sole discretion, to accept the
Letter of Credit;
(NOTE: Any agreement by Fannie Mae to accept a replacement Letter of Credit will be conditioned upon the Borrower's payment of all administrative and legal costs incurred by the Servicer and Fannie Mae in connection with the replacement of the Letter of Credit.)

- the release or reduction provisions of the applicable Achievement Agreement or other Collateral Agreement are satisfied; or

- the Borrower pays all amounts due and payable under the Loan Documents, including any required Prepayment Premium, and Fannie Mae releases the Lien of the Security Instrument.

3. Draws Occasioned by Borrower Request

If the Servicer receives a request from the Borrower to draw on the Letter of Credit and have the proceeds applied as a partial prepayment against the UPB, and the Loan Documents allow partial prepayments, the Servicer must immediately forward the request, along with an analysis and recommendation, including an estimate of the applicable Prepayment Premium, to Fannie Mae. If the Loan Documents do not allow partial prepayments, the Servicer must deny the Borrower request.

Fannie Mae will assess the Borrower request and determine if the proposed use of the Letter of Credit proceeds or other collateral would be in the best interest of Fannie Mae and/or the Investor in any Securitized Mortgage Loan. Any decision to apply Letter of Credit proceeds or apply other collateral to a partial prepayment will be made by Fannie Mae in its sole discretion. Fannie Mae will notify the Servicer of its determination and will provide appropriate follow-up instructions.

4. No Interest on Proceeds Held by Fannie Mae

Fannie Mae will not pay interest on the cash proceeds it holds resulting from a draw on a Letter of Credit.

408.02D Releasing Additional Escrows for Principal and Interest, Taxes and Insurance, and Replacement Reserves

Notwithstanding anything contained in this Chapter, if no Event of Default has occurred and is continuing under any of the Loan Documents (including Forbearance), the Servicer is delegated the authority to waive any Loan Document requirement prohibiting the Servicer from immediately approving a partial or final disbursement request of Additional Escrows for P&I, T&I, and Replacement Reserves required by:
408.03 Completion/Repairs

408.03A General

The Loan Documents for administering Completion/Repairs are:

- for Mortgage Loans documented with the 6000 series Loan Documents, the Multifamily Loan Agreement, plus the:
  - Completion/Repair Schedule;
  - Multifamily Loan Agreement and Modifications to Multifamily Loan and Security Agreement (Rehabilitation Reserve - Moderate Rehabilitation/Substantial Rehabilitation); or
  - another approved Modifications to Multifamily Loan and Security Agreement; and

- For Mortgage Loans documented with the 4000 series Loan Documents, the Completion/Repair Agreement.

The Servicer must administer the Loan Documents to ensure the timely implementation of all Completion/Repairs. Once the Completion/Repairs are completed and comply with the Guide, the Servicer must enter the final completion dates and close out the work items for the Mortgage Loan in the Completion/Repair module in the MAMP. Additional information may be required for any Mortgage Loan assigned to Loss Mitigation. If the Mortgage Loan does not have work items in the MAMP, no further action in the MAMP is required.
**408.03B  Extensions for Completion/Repairs**

The Servicer is delegated the authority to extend the time limits for making Completion/Repairs if:

- the Completion/Repairs subject to the extension request do not involve life safety issues; and
- the Mortgage Loan does not have a Fannie Mae risk rating of Substandard or Doubtful.

Notwithstanding the above, the Servicer is delegated the authority to grant a one-time extension of 30 days for a life safety issue if the Borrower is diligently pursuing completion of the related Completion/Repair.

The duration of any permitted non-life safety extension may not exceed:

- 1 year past the original completion date specified in the Loan Documents for that Completion/Repair, for a Mortgage Loan without loss sharing; and
- 2 years past the original completion date specified in the Loan Documents for that Completion/Repair, for any Mortgage Loan with loss sharing.

The Servicer must submit a Non-Monetary Default Borrower Request in the MAMP if the required Completion/Repairs are not completed with this timeframe.

The Servicer is delegated the authority to grant a one-time extension of up to 90 days past the original completion date for any Completion/Repairs that are Efficiency Measures which the Borrower agreed to implement to qualify as a Green Rewards Mortgage Loan. The Servicer is not delegated the authority to extend the time limit beyond 90 days.

The Servicer is delegated the authority to:

- determine whether the extension requires an amendment to the Loan Documents; and
- document a required amendment in any form the Servicer determines to be legally enforceable.

**408.03C  Completion/Repair Loan Document Amendments**

Servicers are delegated the authority to move required Completion/Repairs from the Completion/Repair Schedule to the Replacement Reserve Schedule, or from the Completion/Repair Agreement to the Replacement Reserve Agreement, and the associated deposit from the Completion/Repair Escrow into the Replacement Reserve, provided:
- the Completion/Repair does not involve life safety issues;
- delaying the Completion/Repair will not materially negatively impact the Property; and
- the total amount of Completion/Repairs being transferred does not exceed the lesser of (i) 25% of the original Completion/Repair Escrow, or (ii) $75,000.

Notwithstanding the above, the Servicer is not delegated the authority to move required Completion/Repairs to the Replacement Reserve Schedule for any Efficiency Measures that the Borrower agreed to implement in order to qualify as a Green Rewards Mortgage Loan.

The Servicer must:

- send the executed Loan Document amendment to Multifamily Certification and Custody within 15 Business Days;
- submit a copy of the Loan Document amendment through the MAMP for any Mortgage Loan with a Completion/Repair work item in the MAMP; and
- retain a copy in its Servicing File.

**408.03D  Servicer’s Administrative Requirements**

For all Completion/Repairs, the Servicer must:

- retain a copy of the executed Multifamily Loan Agreement and Completion/Repair Schedule or Completion/Repair Agreement in its Servicing File;
- hold all Completion/Repair Escrow funds in an account that meets the Custodial Account requirements of Part V, Chapter 3: Custodial Accounts;
- ensure that all necessary permits are obtained, and that all required work is satisfactorily completed in a good and workmanlike manner by the completion dates stipulated in the Loan Documents;
- for a Green Rewards Mortgage Loan, ensure all Efficiency Measures are completed in a timely manner and no later than:
  - 12 months after the Mortgage Loan Origination Date; or
  - any shorter time period per Part II, Chapter 4: Inspections and Reserves, Section 402: Property Condition Assessment (PCA) for capital improvements identified as Immediate Repairs by the PCA;
process Borrower requisitions for funds in accordance with the terms and conditions of the Loan Documents;
perform required inspections of completed work and, if appropriate, work in progress and, if necessary, arrange inspections by qualified professionals;
ensure that the Completion/Repair work does not result in any mechanics' Liens, materialmen's Liens, or other Liens that have not been acceptably bonded over;
promptly submit a Non-Monetary Default Borrower Request in the MAMP for any Completion/Repair Loan Document default;
take appropriate steps to remedy or address any default under the Loan Documents for Completion/Repairs; and
perform all other administrative duties required by the Loan Documents for Completion/Repairs.

408.03E Processing Borrower Requisitions

1. General
Completion/Repair Escrow funds are available to reimburse the Borrower for costs incurred for Completion/Repairs that are specifically identified in the Loan Documents. The Servicer may authorize the release of funds to cover the costs of other reasonable and necessary repairs, replacements, or improvements that are not specified in the Loan Documents only if the Loan Documents permit the disbursements, and all conditions are fully satisfied.

2. Required Documentation for Disbursement
To obtain reimbursement, the Borrower must submit a written requisition specifying the Completion/Repairs for which reimbursement is being sought, including:

- the specific Completion/Repairs completed;
- the quantity and price of all materials (grouped by type or category) or specific replacement items (e.g., appliances) purchased in connection with the Completion/Repairs; and
- the cost of all contracted labor or other services involved in completing the Completion/Repairs.

The Borrower requisition for the specified Completion/Repairs for which reimbursement is being sought must be accompanied by:

- a Borrower certification that the specific Completion/Repairs have been completed:
in a good and workmanlike manner;

- in accordance with any plans and specifications previously approved by the Servicer; and

- in compliance with all applicable laws, ordinances, rules, and regulations of any governmental authority, agency, or instrumentality having jurisdiction over the Property; and

- if the invoice exceeds the lesser of $25,000 or 1% of the UPB:

  - a copy of the invoice detailing the covered materials, labor, or services;
  
  - payment evidence; and
  
  - a Lien release from each contractor, subcontractor, or materialman.

3. Disbursement of Funds (Excluding Final Disbursement)

The Servicer may disburse funds to the Borrower only if it has received all required documentation and determined that all applicable conditions for disbursement have been met, including (but not limited to) the following:

- all Completion/Repairs covered by the requisition have been completed in a good and workmanlike manner, as evidenced by the Borrower’s submission and, if appropriate, an inspection of the completed work (see guidance on inspections below);

- all related invoices for items and services covered by the requisition have been paid, unless the Borrower has satisfied any applicable conditions of the Loan Documents for issuance of a joint check(s), made payable to the Borrower and the Person owed funds under such invoices;

- no mechanics’ Liens, materialmen’s Liens, or other Liens exist, unless acceptably bonded over;

- no default exists under any Loan Document;

- for each Green Rewards Efficiency Measure disbursement, the Efficiency Measure was reported as:
compliant on the Green Rewards Verification Inspection Form (Form 4221) per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 408.03I: Green Rewards Efficiency Measure Verification; or

- noncompliant, and Fannie Mae has approved and closed the remediation in DUS Property Monitor; and

- for a Green Rewards Mortgage Loan with a Solar PV System as an Efficiency Measure, Completion/Repair Escrow funds are only released after confirming commercial operation of the Solar PV System.

The amount disbursed to the Borrower for any requisition, other than the final requisition, may not exceed the actual cost of the Completion/Repairs, and may be less than the actual cost if, after disbursement, the amount of funds remaining in the Completion/Repair Escrow would be less than the anticipated cost of completing all remaining Completion/Repairs plus any holdback specified in the Loan Documents.

Notwithstanding the above, once 75% of the total dollar amount of Completion/Repairs is disbursed, the Servicer may release funds in the Completion/Repair Escrow, provided:

- funds are only released for Completion/Repairs that have been fully completed;
- the Servicer has complied with all other disbursement requirements;
- the Servicer completes an analysis showing that the remaining amount in the Completion/Repair Escrow is sufficient to complete all remaining Completion/Repairs;
- the Borrower affirms in writing its obligation to complete the remaining Completion/Repairs by the required completion dates; and
- the Completion/Repair Escrow is not for a Green Rewards Efficiency Measure that must be released per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 408.03I: Green Rewards Efficiency Measure Verification.

For Green Rewards Efficiency Measures included in a
Moderate Rehabilitation Mortgage Loan, funds may be periodically disbursed from the applicable Completion/Repair Escrow or Rehabilitation Reserve Escrow as with a non-Green Rewards Mortgage Loan, rather than only after a compliant verification inspection of Efficiency Measures.

4. Final Disbursement of Funds

Before making the final disbursement of funds from the Completion/Repair Escrow, the Servicer must confirm and document the absence of any mechanics' and materialmen's Liens by requiring the Borrower to obtain an updated title report or a title policy endorsement showing that no such Liens exist. The Servicer may waive the updated title report or endorsement for Secondary Risk Mortgage Loans when the total scope of work is less than $75,000. If the Borrower fails to provide the required title documentation, the Servicer must obtain a title report or title policy endorsement, and may charge the Borrower for the cost.

The Servicer may make a final disbursement of all remaining funds upon satisfactory completion of all required Completion/Repairs, and satisfaction of all other applicable release conditions contained in the Loan Documents for Completion/Repairs.

5. Maintenance of Servicing File

The Servicer must document the action taken with respect to each Borrower requisition for funds from the Completion/Repair Escrow in its Servicing File.

408.03F Inspections

1. Use of Third Party

The Servicer may inspect the Property, or have a qualified independent third party inspect the Property, to confirm that the Completion/Repairs covered by the requisition have been satisfactorily completed. The Servicer is responsible for monitoring the third-party's performance.

2. When Periodic Inspections Are Required

Periodic inspections must be performed as the work progresses if the Completion/Repairs:

- exceed in the aggregate the lesser of:
  - $500,000, or 20% of the UPB for any Mortgage Loan with loss sharing; or
  - $250,000, or 10% of the UPB for any Mortgage Loan without loss sharing; and
are likely to require more than 6 months to complete.

Inspections must occur at least every 6 months, or more frequently at the Servicer’s discretion.

3. When a Final Inspection Is Required

An inspection must be performed to ensure that all Completion/Repairs have been satisfactorily completed before approving and disbursing the final requisition when the Completion/Repairs exceed the lesser of:

- $500,000, or 20% of the UPB for any Mortgage Loan with loss sharing; or
- $250,000, or 10% of the UPB for any Mortgage Loan without loss sharing.

4. Confirming Completion/Repairs if Inspection Is Not Required

Even if an inspection is not required by this Section, the Borrower must provide evidence to the Servicer that all Completion/Repairs covered by the requisition have been satisfactorily completed. If not inspected sooner, the Servicer must confirm the satisfactory completion of the Completion/Repairs during the next regularly scheduled Property inspection.

5. Documenting the Servicing File

In all instances, the Servicer must document in its Servicing File whether all work was satisfactorily completed.

408.03G Fees

Completion/Repair Escrow funds may not be used to cover any administrative or inspection fees due to the Servicer unless expressly permitted Loan Documents, or the Borrower agrees in writing. If permitted, the Servicer may charge the Borrower and deduct the following from any disbursement of funds:

- reasonable fees to cover the Servicer’s costs of administering the Completion/Repairs; and
- additional fees to cover any reasonable inspection costs that are not adequately covered by general administrative fees collected from the Borrower.

408.03H Completion/Repair Defaults

1. Notification of Default to Fannie Mae
The Servicer must immediately submit a Non-Monetary Default Borrower Request in the MAMP for any Completion/Repair Loan Document default.

2. No Release of Funds to Borrower

No funds may be released to the Borrower while the Borrower is in default under any of the Loan Documents.

408.03I Green Rewards Efficiency Measure Verification

For all Green Rewards Mortgage Loans, the Servicer must ensure a Green Rewards Verification inspection is performed for all Efficiency Measures to confirm correct installation, and identify any errors that may hinder the Property achieving the expected savings and benefits.

1. Green Rewards Verification Inspection

For a Green Rewards Verification inspection, the inspector must use the Green Rewards Verification Inspection Form (Form 4221) that is pre-populated with Property information and the Efficiency Measures identified as Green Rewards Repairs in the Completion/Repair Schedule. The Servicer must submit Form 4221 within 60 days after the Green Rewards Verification inspection date, and timely resolve any issues identified by Fannie Mae.

2. Minimum Inspector Qualifications

Third-party or Servicer staff must attend Fannie Mae’s Green Rewards Verification inspection training on the requirements, processes, and documentation before conducting Green Rewards Verification inspections.

The minimum inspector qualifications correspond to the applicable Efficiency Measure type, and may be held by the inspection project team, rather than by an individual inspector.

<table>
<thead>
<tr>
<th>Efficiency Measures</th>
<th>Description</th>
<th>Minimum Inspector Qualification</th>
</tr>
</thead>
</table>
| Basic               | Simple upgrades such as:  
• low-flow water fixtures; or  
• lighting improvements. | Servicer must ensure the inspector is either a qualified third-party or Servicer staff per Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocol and Part V, Chapter 5: Surveillance, Section 502.05A: Qualifications. |
### Complex Upgrades and changes to building systems, such as:
- heat recovery ventilation systems; or
- boiler controls.

- For Solar PV System Efficiency Measures, the Servicer must retain a
  - Solar Technical Consultant per Part III, Chapter 4: Green Mortgage Loans, Section 401.03: Technical Solar Report, or
  - qualified PCA High Performance Building Consultant per the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099).

- For other Efficiency Measures, the Servicer must retain a qualified PCA High Performance Building Consultant per Form 4099.

### 3. Unit Inspection

The inspector must inspect a minimum number of occupied and vacant units as follows:

<table>
<thead>
<tr>
<th>Total number of units</th>
<th>Minimum number of units to be inspected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 20</td>
<td>3 units</td>
</tr>
<tr>
<td>20 - 55</td>
<td>5 units</td>
</tr>
<tr>
<td>56 - 99</td>
<td>10% of total units</td>
</tr>
<tr>
<td>100 - 200</td>
<td>10 units</td>
</tr>
<tr>
<td>201 - 600</td>
<td>5% of total units</td>
</tr>
<tr>
<td>More than 600</td>
<td>30 units</td>
</tr>
</tbody>
</table>

Form 4221 calculates the required number of units and tracks the number of completed units based on the user's inputs. When unit inspections are required, the Servicer must:

- Determine the appropriate combination of vacant and occupied units for inspection.
Determine which vacant and occupied units to inspect.

Submit at least:

- 1 representative photograph of each Efficiency Measure listed on Form 4221; and
- 1 photograph of each non-compliant Efficiency Measure.

For Partial Efficiency Measures, the Servicer must request a rent roll or other documentation identifying the units that received Partial Efficiency Measure installations, and conduct the Green Rewards Verification of those units.

4. Determining Compliance

An Efficiency Measure is compliant when the inspector:

- inspects each Efficiency Measure;
- verifies its proper installation within specifications using product information and field observation;
- confirms the Efficiency Measure installation meets the Multifamily Loan Agreement and Completion/Repair Schedule requirements; and
- documents it on Form 4221.

5. Remediating Noncompliance

When an Efficiency Measure is noncompliant:

- The Servicer must:
  - provide a notice of the Efficiency Measure deficiencies to the Borrower and determine a course of action;
  - submit a remediation action plan through the DUS Property Monitor system that:
    - addresses the Property's Efficiency Measure deficiencies; and
    - provides a target date for remediation completion that is no more than 60 days after the Borrower receives the notice of deficiencies.

- The Borrower must correct or complete the Efficiency Measure installation during the remediation period.

- Fannie Mae may require the Servicer to inspect the remediated Efficiency Measures based on the severity of noncompliance.
6. Verification Inspection Form Review

The Servicer must internally review all Green Rewards Verification Inspection Forms (Form 4221), whether prepared by a third party or by the Servicer before submission.

408.04  Replacement Reserve

408.04A  General

The Loan Documents for administering Replacement Reserves are:

- Multifamily Loan Agreement and Replacement Reserve Schedule, for Mortgage Loans documented with the 6000 series Loan Documents; and
- Replacement Reserve Agreement, for Mortgage Loans documented with the 4000 series Loan Documents.

The Replacement Reserve funds must be held by the Servicer in a Custodial Account, and are intended to pay for necessary replacements of capital items or major maintenance work to the Property over the term of the Mortgage Loan.

408.04B  Replacement Reserve Loan Document Amendments

If the Servicer’s Limited Power of Attorney delegates the authority to amend the Loan Documents to revise the terms governing the Replacement Reserves, only the changes expressly permitted by this Section can be made, and the delegation does not expand the Servicer’s ability to change or modify any other term of the Loan Documents.

The Servicer must send the executed Loan Document Amendment to Multifamily Certification and Custody within 15 Business Days, and retain a copy in its Servicing File.

408.04C  Servicer’s Administrative Requirements

For all Replacement Reserves, the Servicer must:

- retain a copy of the executed Multifamily Loan Agreement and Replacement Reserve Schedule or Replacement Reserve Agreement in its Servicing File;
- unless the Borrower has requested in writing a non-interest bearing account, hold all funds in an interest-bearing Custodial Account that meets the requirements of Part V, Chapter 3: Custodial Accounts and the Loan Documents;
- ensure that all required deposits are made to the Replacement
Reserve in accordance with the Loan Documents;

- process Borrower requisitions for funds in accordance with the terms and conditions of the Loan Documents;

- perform required inspections of completed work and, if appropriate, work in progress, and arrange, if necessary, for inspections by qualified professionals;

- ensure that work funded from the Replacement Reserve does not result in any mechanics’ Liens, materialmen’s Liens, or other Liens that have not been acceptably bonded over;

- promptly submit a Non-Monetary Default Borrower Request in the MAMP for any Replacement Reserve Loan Document default;

- take appropriate steps to remedy or address any default under the Loan Documents for Replacements, Repairs, or Restoration; and

- reassess the adequacy of the Replacement Reserve or the schedule of required deposits; and

- perform all other administrative duties required by the Loan Documents for the Replacement Reserve.

408.04D Modifications to Replacement Reserve Deposits

Based on the results of a Property inspection or a new Property Condition Assessment as required below, the Servicer may determine that the current level of Replacement Reserve funding and scheduled deposits will be insufficient to meet all projected capital item or major maintenance needs. The Servicer must then:

- adjust the Replacement Reserve Schedule or the Replacement Reserve Agreement and the Replacement Reserve funding to a sufficient level, if warranted, in accordance with the Loan Documents and Part III, by requiring the Borrower to:
  - deposit a lump sum into the Replacement Reserve; and/or
  - increase the monthly Replacement Reserve deposit; and

- give the Borrower at least 30 days advance written notice prior to implementing any of the foregoing changes.

Based on the results of the new Property Condition Assessment obtained during the underwriting and delivery of a Supplemental Mortgage Loan, the Servicer may:

- adjust the Replacement Reserve funding, scheduled deposits,
and Completion/Repair Schedule of all Pre-Existing Mortgage Loans to match the Supplemental Mortgage Loan underwriting; and

- amend the Loan Documents accordingly.

**408.04E  New Property Condition Assessments**

**1. Timing and Waivers**

A new PCA is required for:

- all MAH Properties every 5 years; or
- for any other Mortgage Loan with a term greater than 10 years, during the 10th Loan Year, and every 10 years thereafter, while the Mortgage Loan remains outstanding, or per the Loan Documents.

Notwithstanding the above, the Servicer is delegated the authority to waive the new PCA for non-MAH Properties as follows:

<table>
<thead>
<tr>
<th>Remaining Loan Term</th>
<th>Servicer Delegation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 Year</td>
<td>The new PCA may be waived for a Mortgage Loan with a:</td>
</tr>
<tr>
<td></td>
<td>- Pass rating;</td>
</tr>
<tr>
<td></td>
<td>- Property inspection less than 1 year old; and</td>
</tr>
<tr>
<td></td>
<td>- Property condition rating of 1, 2, or 3.</td>
</tr>
<tr>
<td>1 Year to 5 Years</td>
<td>The new PCA may be waived for a Mortgage Loan with a:</td>
</tr>
<tr>
<td></td>
<td>- Pass rating;</td>
</tr>
<tr>
<td></td>
<td>- Property inspection report less than 1 year old; and</td>
</tr>
<tr>
<td></td>
<td>- Property condition rating of 1 or 2.</td>
</tr>
<tr>
<td>More than 5 Years</td>
<td>The new PCA may be waived for 5 years for a Mortgage Loan with a:</td>
</tr>
<tr>
<td></td>
<td>- Pass rating;</td>
</tr>
<tr>
<td></td>
<td>- Property Inspection report less than 1 year old; and</td>
</tr>
<tr>
<td></td>
<td>- Property condition rating of 1 or 2.</td>
</tr>
</tbody>
</table>
After 5 years, a new PCA is required unless the Mortgage Loan continues to qualify for Servicer waiver delegation. A Property may only receive a PCA waiver twice (i.e., a Mortgage Loan with a 30-year term may obtain a PCA waiver after the 10th loan year and the 15th loan year, but a new PCA is required after the 20th loan year).

All PCA waivers must be documented in the Servicing File, and any PCA waiver may be rescinded by Fannie Mae or the Servicer at any time if the Property condition warrants a new PCA.

2. Streamlined PCA Permitted

The Servicer may use Streamlined PCA Guidance (Form 4099.A) if the most recent Property site inspection:

- was performed according to Part II, Chapter 4: Inspections and Reserves, Section 401: Site Inspection and Lease Audit;
- indicated an overall rating of 1 or 2; and
- did not reveal any adverse change in Property condition (except normal wear and tear) or life safety issues.

3. Delivery and Payment of Property Condition Assessment

The Servicer must submit any new PCA to Fannie Mae through the MAMP and retain a copy in its Servicing File. Subject to the terms of the Loan Documents, the cost of the PCA may be paid from funds in the Replacement Reserve.

408.04F When Replacement Reserve Funding Was Partially or Fully Waived

If Replacement Reserve funding was partially or fully waived at the Mortgage Loan Origination Date, the Servicer must monitor the condition of the Property to ensure the Borrower preserves and maintains the Property as required by the Loan Documents.

If the Servicer or Fannie Mae determines that the Borrower is not properly preserving and maintaining the Property, the Servicer must require the Borrower to begin making monthly deposits to the Replacement Reserve in accordance with either the funding schedule set forth in the Loan Documents, or an alternative funding schedule determined by the Servicer.

408.04G Interest on Replacement Reserve Funds

If the Servicer holds the Replacement Reserve funds in an interest-bearing Custodial Account, none of the interest earned on the Replacement Reserve funds may be retained by the Servicer. Unless the Mortgage Loan is in default, all interest must be:
408.04H  Items Eligible for Funding from the Replacement Reserve

Replacement Reserve funds are available to reimburse the Borrower for costs incurred to replace capital items or maintain major items specifically identified in the Loan Documents.

Replacement Reserve funds also may be used for discretionary replacements of capital items or major maintenance items that are not specifically identified in the Loan Documents, but which the Servicer determines are intended to be covered by a Replacement Reserve Schedule, such as those that would:

- correct or forestall a problem that may adversely affect the physical condition, livability, marketability, or value of the Property;
- directly contribute to the maintenance or enhancement of the Property’s physical condition, livability, marketability, or value; or
- likely be noted in an updated Property Condition Assessment.

If Replacement Reserve funds are used for purposes not originally contemplated in the Loan Documents, the Servicer must monitor and adjust the monthly reserve deposits to ensure sufficient funds are available to make timely replacements of capital items or major maintenance items in the manner contemplated in the Loan Documents and/or the PCA.

408.04I  Items Not Eligible for Funding from the Replacement Reserve

The Servicer must not use Replacement Reserve funds to reimburse the Borrower for any item specifically identified for reimbursement as a Completion/Repair, or for any routine maintenance item, routine repair, or cosmetic repair that would normally be characterized as an operating expense. Replacement Reserve funds must never be used for P&I, T&I, or any other purpose not specifically permitted by the Loan Documents, or the Guide.

408.04J  Processing Borrower Requisitions

1. General

The Loan Documents specify the frequency, timing, and size of disbursements from the Replacement Reserve.

2. Required Documentation
Each Borrower requisition must be in writing and specify, at a minimum:

- the specific capital item replaced or major maintenance items for which reimbursement is being sought, and if any item is not specifically identified in the Loan Documents, an explanation of why the Replacement Reserve funds should be released for the item;
- the quantity and price of each type of capital item replaced (e.g., refrigerators);
- the quantity and price of all materials or parts (grouped by type or category) purchased; and
- the cost of all contracted labor or other services.

Each Borrower requisition submitted to the Servicer must be accompanied by:

- a Borrower certification that the capital item replacements or major maintenance items covered by the requisition have been completed in compliance with all applicable laws, ordinances, rules, and regulations of any governmental authority, agency, or instrumentality having jurisdiction over the Property; and
- if the invoice exceeds the lesser of $25,000 or 1% of the UPB:
  - a copy of the invoice detailing the covered materials, labor, or services;
  - payment evidence;
  - a Lien release from each contractor, subcontractor, or materialman; and
  - other relevant documentation required by the Loan Documents.

3. Disbursement of Funds

The Servicer may release funds to the Borrower only if all required documentation is received, and all applicable release conditions have been met, including, but not limited to:

- all capital item replacements or major maintenance items covered by the requisition have been completed in a good and workmanlike manner;
- all related invoices for capital items and services have been paid, unless the Borrower has satisfied any
applicable conditions of the Loan Documents for issuance of a joint check, made payable to the Borrower and the Person owed funds;

- no mechanics’ Liens, materialmen’s Liens, or other Liens are outstanding that have not been acceptably bonded over; and

- the Borrower is not in default under any Loan Document.

The amount disbursed to the Borrower must not exceed the actual cost of the capital item replacements or major maintenance items covered by the Borrower’s requisition.

4. Maintenance of Servicing File

The Servicer must ensure that the action taken with respect to each Borrower requisition for funds from the Replacement Reserve is appropriately documented in its Servicing File.

408.04K Inspections

The Servicer may use its discretion in deciding whether to conduct an on-site inspection before approving any specific requisition for Replacement Reserve funds. If the Servicer elects not to perform an on-site inspection when a requisition is submitted, the Servicer must inspect all capital item replacements or maintenance items covered by the requisition during its next scheduled Property inspection and confirm the satisfactory completion.

408.04L Fees

If the Loan Documents permit, the Servicer may collect and retain:

- a reasonable fee to cover the Servicer’s routine costs of administering the Replacement Reserve; and

- additional fees to cover:
  
  - reasonable inspection costs, including the fees of any qualified professional used by the Servicer; and

  - any other reasonable costs incurred in connection with collecting, holding, investing, or disbursing Replacement Reserve funds but which are not adequately covered by the general administrative fees collected from the Borrower.

Subject to the Loan Documents, the Servicer may charge the Borrower a reasonable fee for any special inspection services provided in connection with a Replacement Reserve requisition; however, no fee may be charged if such inspection is made as part of a regularly scheduled Property
inspection.

Replacement Reserve funds, including any interest, may not be used to cover fees due to the Servicer unless:

- the Loan Document specifically permits the Servicer to use Replacement Reserve funds to pay Servicer inspection fees; or
- the Borrower otherwise agrees in writing.

### 408.04M Replacement Reserve Defaults

#### 1. Notification of Default to Fannie Mae
The Servicer must immediately submit a Non-Monetary Default Borrower Request in the MAMP for any Replacement Reserve Loan Document default.

#### 2. No Release of Funds to Borrower
No funds may be released to the Borrower while the Mortgage Loan is in default.

### 408.04N Return of Replacement Reserve Funds to Borrower

No later than 30 days after the Mortgage Loan is paid in full, the Servicer must refund to the Borrower all remaining Replacement Reserve funds.

### 408.04O Alternative Funding of Replacement Reserves for Portfolio Mortgage Loans

The Servicer may amend existing the Schedule 5 to Multifamily Loan Agreement - Replacement Reserve Schedule or Replacement Reserve Agreement on Fannie Mae’s behalf to match the alternative Replacement Reserve funding available for newly originated Mortgage Loans if the Borrower has a history of adequate property maintenance, and no other concerns are present (e.g., declining Property condition, declining rents, declining Net Cash Flow). The Servicer must send the executed Loan Document amendment revising the Replacement Reserve Schedule or Replacement Reserve Agreement to Multifamily Certification and Custody within 15 Business Days, and retain a copy in its Servicing File.

The Servicer must ensure the Property is properly maintained on an ongoing basis. If the Property is not being properly maintained, the Servicer must reinstate monthly deposits to the Replacement Reserve and the reimbursement requisition process.

### Section 409 Interest Rate Hedge Requirements

#### 409.01 General
An acceptable Interest Rate Hedge must be in place and maintained at all times for:

- variable rate Credit Enhancement Mortgage Loans;
- Structured ARM Loans; and
- any Mortgage Loan where (i) the Borrower was permitted to execute the Fannie Mae form Interest Rate Cap Reserve and Security Agreement (Springing Cap) (Form 6442.SC), or a similar agreement, allowing for a “springing” Interest Rate Cap under certain circumstances, and (ii) the requirement of the Borrower to acquire and pledge to the Lender an Interest Rate Cap has been triggered under the agreement.

The Interest Rate Hedge may be either an Interest Rate Cap or Interest Rate Swap, although the prior approval of Fannie Mae is required before the Borrower may enter into an Interest Rate Swap.

Each Interest Rate Hedge Agreement and its collateral assignment must meet the requirements of Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans.

Fannie Mae outside counsel must be engaged, at Borrower’s cost, to review the hedge bid package and documents, and prepare the amended Loan Documents for each hedge renewal. The Servicer must submit a completed Counsel Designation Request for Interest Rate Hedge Transactions (Form 4625.A).

### 409.02 Interest Rate Hedge Coverage

#### 409.02A Bond Credit Enhancement Transactions

For Bond Credit Enhancement Mortgage Loans, the Interest Rate Hedge must:

- be in place whenever the variable rate mode is in effect; and
- comply with the requirements of the Reimbursement Agreement and other Loan Documents.

#### 409.02B Structured Transactions

When required for a Structured Transaction, the Servicer must ensure that the Interest Rate Hedge conforms to the applicable Master Credit Facility Agreement, Bulk Delivery Agreement, and/or the other Loan Document requirements.

#### 409.02C All Hedges
Per the Interest Rate Cap Reserve and Security Agreement (Form 6442), the Servicer must evaluate the Interest Rate Cap reserve and determine if the cost of a replacement Interest Rate Cap has increased or decreased based on market conditions.

- If the estimated cost of a replacement cap has increased, the Servicer must increase the monthly reserve payment to ensure that sufficient funds will be available to purchase the replacement cap by the end of the reserve period.

- If the estimated cost of a replacement cap has decreased, the Servicer must not adjust the reserve.

The Servicer may refund to the Borrower any amount left in the reserve account after purchasing the replacement Interest Rate Cap.

**409.03 Interest Rate Hedge Term**

The Servicer must:

- monitor the term of each Interest Rate Hedge Agreement;
- hold all escrowed funds for an Interest Rate Hedge in an account meeting the Custodial Account requirements of Part V, Chapter 3: Custodial Accounts;
- engage the Borrower prior to expiration of each Interest Rate Hedge to ensure that an acceptable replacement Interest Rate Hedge is in place prior to its expiration; and
- perform any required functions with respect to the Interest Rate Hedge Agreement.

**409.04 Lien Filings and Collateral**

The Servicer must maintain all UCC filings, and ensure that Fannie Mae’s Lien in the Interest Rate Hedge is maintained. The Servicer must not direct the investment, application, or release of the collateral under any Interest Rate Hedge Agreement, without express written authorization from Fannie Mae.

**409.05 Borrower Payments**

**409.05A Interest Rate Caps**

Any payments by the Interest Rate Cap provider must be made to the Servicer and not to the Borrower. The disposition of funds depends on whether the Borrower is current on the Mortgage Loan and Reimbursement Agreement payment obligations (principal or PRF deposit, as applicable,
interest, any Interest Rate Cap escrow, and all other amounts then due) or any default exists under the Reimbursement Agreement or any other Loan Document.

If no default exists, the Servicer must remit the Interest Rate Cap provider’s payment to the Borrower. If a default exists, the Servicer must retain the Interest Rate Cap provider’s payment as additional collateral for the Borrower’s obligations, to be held in accordance with the applicable agreements, and notify Multifamily Structured Asset Management of the receipt of the payment.

If the Bond Trustee or another third party is to receive any payments from the Interest Rate Cap provider, and the Borrower is not current on its payments or a default exists, then the Servicer must:

- notify the payee of the facts; and
- instruct the third party to withhold the payment to the Borrower, and make payment to the Servicer to be held as additional collateral for the Borrower’s obligations.

409.05B Interest Rate Swaps

The Servicer must monitor the Interest Rate Swap to ensure that all payments are made on a timely basis. All payments under an Interest Rate Swap must be made directly to the Servicer, which will:

- remit the amount received from the Borrower to the Interest Rate Swap provider; or
- remit the amount received from the Interest Rate Swap provider to the Borrower, but only after the Borrower has made the required monthly P&I payment on the Mortgage Loan.

Payments due on the Interest Rate Swap must match the payment dates on the Mortgage Loan or the Bonds, as applicable. The Servicer must advance Interest Rate Swap payments and Interest Rate Swap credit enhancement fees that are not made by the Borrower or the Interest Rate Swap provider, as applicable, on a timely basis. These payments and their duration will be treated as Delinquency Advances. The Servicer is not required to advance any termination payment due on the Interest Rate Swap.

409.06 Provider Ratings

Fannie Mae lists the credit agency rating requirements and the acceptable Interest Rate Hedge providers on Cap/Swap Counterparties for Multifamily Transactions. If the rating of a provider declines to a level where termination and replacement of the outstanding Interest Rate Hedges with that provider is required, Fannie Mae will notify the affected servicers...
and direct them to contact their Borrowers and work with them to effect the termination and replacement. Failure to replace any Interest Rate Hedge provider whose rating no longer meets the rating requirements is a default under the Loan Documents.

### 409.07 Replacement Interest Rate Hedge and Notification

At least 90 days before termination of an Interest Rate Hedge, the Borrower must give the Servicer written notice of its intent to either obtain a new Interest Rate Hedge or, for a variable rate Credit Enhancement Mortgage Loan or Structured ARM Loan, adjust the interest rate to a Bond Reset Interest Rate or fixed rate.

If the Borrower elects to obtain a new Interest Rate Hedge, the Servicer must confirm that the possible Interest Rate Hedge providers are all on the current list of approved Cap/Swap Counterparties for Multifamily Transactions, and review the Loan Documents for the timing requirements.

If the Interest Rate Hedge expires and the Borrower has failed to provide evidence of securing the replacement Interest Rate Hedge, the Servicer must notify Multifamily Structured Asset Management immediately. Fannie Mae will instruct the Servicer’s action regarding the Borrower’s default.

### 409.08 Replacement Interest Rate Hedge Documents and Follow Up

The Servicer must send to Multifamily Certification and Custody within 15 Business Days the original replacement Interest Rate Hedge documents, including the Interest Rate Cap Agreement or Interest Rate Swap Agreement, the Assignment of Hedge Interest or Supplemental Hedge Security Agreement, and UCC Financing Statements, and retain copies in the Servicing File. The Servicer must submit a copy of the new Interest Rate Cap Agreement or Interest Rate Swap Agreement through the MAMP, and provide the new Interest Rate Hedge information as follows:

- for Credit Enhancement Mortgage Loans – upload Hedge Delivery Information (Form 4643) into CESIR;
- for all Interest Rate Hedges in Credit Facility and Bulk Delivery transactions – update hedge data in MSFMS; or
- for Structured ARM Loans (except in Credit Facility and Bulk Delivery transactions) – submit Form 4643 through the MAMP.

### Section 410 Ground Leases

If the Borrower owns a Leasehold interest in the Property, the Servicer must:
- ensure that the Borrower complies with all provisions of the Loan Documents that relate to the Ground Lease;

- if the Ground Lease payments are escrowed, collect monthly payments from the Borrower to ensure sufficient funds will be available to pay the ground rents and any special payments required by the Ground Lease; and

- hold any escrowed ground rent payments with the Borrower’s other T&I escrow funds in a T&I Custodial Account or a separate Custodial Account that meets all requirements of Part V, Chapter 3: Custodial Accounts.

The Servicer is responsible for any losses incurred by Fannie Mae if the Servicer fails to make timely ground rent payments. The Servicer must immediately submit a Non-Monetary Default Borrower Request in the MAMP for any Ground Lease default.

Section 411 Notice of Lien or Noncompliance with Applicable Laws, Ordinances and Regulations

The Servicer is responsible for protecting the Lien priority of the Security Instrument, and must:

- take all reasonable actions to prevent the filing of any Lien that would prime the Lien of the Security Instrument;

- immediately notify Multifamily Asset Management, in writing, upon learning of any such Lien filing, including a recommendation for resolving the situation; and

- submit a Non-Monetary Default Borrower Request in the MAMP, if:
  - the Servicer is aware of any material violation by the Borrower or Property management agent of any applicable law, ordinance, regulation, or other legal requirement; or
  - the Property is not in compliance with any applicable law, ordinance, regulation, or other legal requirement, including, without limitation, any relating to:
    - Fair Housing Act;
    - Americans with Disabilities Act;
    - non-discrimination;
    - environmental hazards;
    - occupancy;
    - zoning and land use;
— health, fire, and building codes relating to immediately hazardous conditions; and
— illegal use of the Property.

The Servicer must also provide to Fannie Mae all information concerning any lawsuit, cause of action, or claim by any third party resulting from or relating to the violation.

**Section 412** Property Forfeitures and Seizures

Various federal and state statutes provide for the civil or criminal forfeiture of certain types of property, including real estate that is used, or intended to be used, to commit or facilitate the commission of certain violations of law.

The Servicer must not provide any information about the Borrower, the Mortgage Loan, the Property, any Key Principal, or any Principal directly to any federal or state agency unless Fannie Mae specifically authorizes the release of the information. Following any contact from a federal or state official, the Servicer must immediately contact Multifamily Asset Management and Multifamily Special Asset Management. The Servicer should describe in its communication the nature of the contact, the information requested, and any document or papers received by the Servicer in connection with the contact. The Servicer must continue to service the Mortgage Loan.

**Section 413** Property and Liability Insurance

413.01 Property and Liability Insurance

The Servicer must:

- ensure that the Property is continuously covered by property and liability insurance, as required by Part II, Chapter 5: Property and Liability Insurance, and that all renewal premiums are paid in full and on time; and
- at least annually review the adequacy of the Borrower’s insurance coverage in relation to the current requirements of Part II, Chapter 5: Property and Liability Insurance.

If the existing insurance coverage or policy is inadequate, the Servicer must require the Borrower to make appropriate changes. Periodically, the Servicer may be required to make certain representations to Fannie Mae regarding the property and liability insurance coverages and policies for all of the Mortgage Loans it services.
**413.02 No Financing for Property and Liability Insurance Premiums**

The Servicer must not provide financing to the Borrower, or otherwise permit the Borrower to obtain financing, in order to pay any insurance premiums, except as permitted by Part II, Chapter 5: Property and Liability Insurance.

**413.03 Flood Map Changes; Obtaining Flood Insurance**

The Servicer must monitor all flood map and community status changes, and take appropriate action when changes affecting Mortgage Loans it services occur as required by Part II, Chapter 5: Property and Liability Insurance. When a Property is remapped into a Special Flood Hazard Area, the Servicer must require the Borrower to obtain flood insurance, regardless of whether the community is “participating” in the National Flood Insurance Program. The flood insurance policy must be in place within 45 days after the effective date of the remapping. If the Borrower refuses to obtain the required coverage or pay a disputed premium, the Servicer must obtain the required coverage. The Servicer must contact Multifamily Insurance if:

- a Property is in a Special Flood Hazard Area;
- the community in which the Property is located does not participate in the National Flood Insurance Program; and
- the Borrower cannot obtain the required flood insurance.

**413.04 Lender Placed Insurance**

**413.04A Property and Liability Insurance**

If the Borrower fails to obtain acceptable insurance coverage, the Servicer must immediately obtain acceptable insurance coverage for the Property at the Borrower’s expense.

**413.04B Flood Insurance**

If acceptable insurance coverage cannot be obtained, the Servicer must immediately contact Multifamily Insurance to determine the appropriate course of action.

**413.04C Servicer’s Administrative Costs and Expenses**

The Servicer is permitted to collect from the Borrower any reasonable out-of-pocket costs and expenses incurred by the Servicer to obtain insurance coverage for the Property.
## Section 414  Casualty Losses – Performing Mortgage Loans

### 414.01 Notice

In the event of a casualty loss of $75,000 or more, the Servicer must submit through the MAMP a:

- **Report of Multifamily Hazard Insurance Loss (Form 178):**
  - within 30 days if no serious injury or death occurred; or
  - within 10 days if serious injury or death occurred; and

- **final Form 178** indicating that the Property is fully restored, and document its Servicing File when the Property is fully restored.

A revised **Form 178** must be submitted if any of the information on the form changes for any casualty loss greater than the lesser of (i) $500,000, or (ii) 20% of the UPB.

### 414.02 Filing Proof of Loss

For any casualty loss covered by the Borrower’s insurance policy, the Servicer must ensure that the Borrower timely files a proof of loss with the insurance carrier, and effects a prompt and reasonable adjustment of the loss. If the Borrower fails to timely file a proof of loss with the insurance carrier, or take requisite actions to effect a prompt adjustment of the loss claim, the Servicer must independently contact the insurance carrier to adjust the loss claim.

### 414.03 Casualty Loss Assessment

The Servicer must assess the extent and impact of any damage caused by a casualty, and ensure that the Borrower appropriately addresses the damage.

Within 45 days after learning of a casualty loss, the Servicer must document its Servicing File with the results of its casualty loss assessment. At a minimum, the Servicer must include:

- when the casualty loss occurred and when the Servicer was first informed of the casualty loss;
- the scope of the damage and its effect on the Property (e.g., impact on the habitability of the buildings, safety of the residents, serious injury or loss of life, project occupancy, and project income and expenses);
- the Borrower’s plan of action for securing and restoring the damaged portion of the Property, and the status of the
Borrower’s efforts to implement the plan, including the specific steps to be taken (e.g., temporarily relocating tenants, preparing plans and specifications, awarding contracts, and commencing repair work);

- whether any environmental problems are associated with the damage, and if so, how they will be addressed;

- the projected cost to repair and restore the damaged Improvements, including any available information on contractors’ bids or awards;

- whether the casualty loss is covered by the Borrower’s insurance policy, the status of any insurance claim, and an estimate of the amount and timing of the funds to be received from the insurance carrier;

- the estimated amount of additional funds that the Borrower will have to provide from its own resources to complete all necessary repair and restoration work, and the current availability of such funds; and

- any other relevant information pertaining to the loss event that is known to the Servicer and could have a material bearing on Fannie Mae’s interests.

### 414.04 Required Casualty Loss Property Inspection

The Servicer must inspect the Property, take photographs of the damage, and complete a Multifamily Catastrophic Loss Inspection (Form 4261) if:

- the casualty loss is expected to exceed the lesser of (i) $500,000, or (ii) 20% of the UPB of the Mortgage Loan as of the date of the casualty; or

- any of the following conditions exists:
  - a default has occurred and is continuing under the Loan Documents;
  - the combination of insurance proceeds and Borrower funds is insufficient to complete the necessary Property repairs for restoration to a condition fit for human habitation and meeting all applicable permitting requirements;
  - prior to the commencement of any restoration work, the Servicer determines that, upon completion of the repair and restoration work, the Property will not be capable of generating sufficient income to cover all operating expenses, required Replacement Reserve deposits, P&I on the Mortgage Loan, and required payments on any
subordinate debt secured by the Property, or will not otherwise meet a DSCR or other test required by the Loan Documents; or

- the repair and restoration work will not be completed by the earlier of (i) the Maturity Date, or (ii) within 1 year from the date of the casualty.

The Servicer may charge the Borrower for the cost of the inspection unless expressly prohibited by the Loan Documents.

An inspection by the Servicer is optional if the casualty loss is expected to be less than (i) $500,000, or (ii) 20% of the UPB, and none of the above conditions exist. If the Servicer elects not to inspect the Property, the Servicer must confirm during the next Property inspection, and document in its Servicing File, that the repair and restoration work was satisfactorily completed. If the Servicer determines that the repair or restoration work was not satisfactorily completed, the Servicer must notify Multifamily Inspections and Multifamily Loss Mitigation) in writing, as required by Part V, Chapter 5: Surveillance.

### 414.05 Documentation for Required Casualty Loss Property Inspections

After inspecting the Property, the Servicer must:

- retain in its Servicing File a copy of the completed Catastrophic Loss Inspection (Form 4261), and photographs of the damaged portions of the Property; and

- submit a copy of the Catastrophic Loss Inspection (Form 4261) and the photographs through the MAMP within 7 days after completing the Catastrophic Loss Inspection (Form 4261).

### 414.06 Endorsement of Insurance Loss Draft or Check When Payable to Fannie Mae

Any insurance loss draft or check issued by the insurance carrier must be made payable to Fannie Mae in care of the Servicer, or as otherwise required by the mortgagee clause. Provided the Lender Contract contains nothing to the contrary, the Servicer is delegated the authority to endorse any insurance loss draft or check on Fannie Mae’s behalf, as follows:

Fannie Mae

By: [Name of Servicer]

By: [Name of Servicer’s Authorized Signer]

[Title of Servicer’s Authorized Signer].

If any insurance loss draft or check made payable to Fannie Mae
or the Servicer is cashed by the Borrower without proper endorsement by Fannie Mae or the Servicer, the Servicer must instruct the Borrower to send the funds to the Servicer within 5 Business Days. If the Borrower does not send the funds, the Servicer must contact Multifamily Asset Management immediately.

414.07 Endorsement of Insurance Loss Draft or Check When Not Payable to Fannie Mae

If the insurance loss draft or check is payable to the Servicer, the Servicer is authorized to endorse the draft or check and apply the proceeds in accordance with this Section. The Servicer must also send the Insurer an Insurance Loss Payee Notice Letter (Form 4803) so that all future insurance loss drafts and checks will be issued to Fannie Mae in care of the Servicer. The Servicer must retain a copy of the Insurance Loss Payee Notice Letter (Form 4803) in its Servicing File.

414.08 Insurance Loss Draft or Check Not Payable to Either Fannie Mae or Servicer

If the insurance loss draft or check is not made payable to either Fannie Mae or the Servicer, the Servicer must return it to the insurance carrier and request the loss draft or check be reissued in the name of Fannie Mae and sent to the Servicer. If the check has already been cashed by the Borrower, the Servicer must demand those funds be either paid by the Borrower to the Servicer and/or deposited in a Custodial Account meeting the requirements of Part V, Chapter 3: Custodial Accounts.

414.09 Application of Insurance Loss Proceeds

The Servicer must review the Loan Documents to confirm no contrary requirements exist regarding the application of insurance loss proceeds (e.g., where the Loan Documents require the noteholder to “reasonably” approve the application of insurance proceeds, where the noteholder is to apply commercially reasonable standards, or where the noteholder has the power to approve in its sole discretion).

414.09A Fannie Mae Determination Required

If any of the following conditions exist, Fannie Mae will determine, in its sole discretion, whether to require the insurance loss proceeds to be (i) applied to the UPB, or (ii) used to repair and restore the Property:

- a default has occurred and is continuing under the Loan Documents;
- the combination of insurance proceeds and Borrower funds is insufficient to complete the necessary Property repairs for restoration to a condition fit for human habitation and meeting all applicable permitting requirements;
prior to the commencement of any restoration work, the Servicer determines that, upon completion of the repair and restoration work, the Property will not be capable of generating sufficient income to cover all operating expenses, required Replacement Reserve deposits, P&I on the Mortgage Loan, and required payments on any subordinate debt secured by the Property, or will otherwise meet a DSCR or other test required by the Loan Documents; or

- the repair and restoration work will not be completed by the earlier of (i) the Maturity Date, or (ii) within 1 year from the date of the casualty loss.

414.09B Disposition of Insurance Loss Proceeds

Based upon the Borrower’s plan of action and the Servicer’s overall assessment, and provided none of the conditions listed in Part V, Chapter 4: Asset Management: Loan Document Administration, Section 414.04: Required Casualty Loss Property Inspection exist, the Servicer has the authority to:

- hold the proceeds to incrementally reimburse the Borrower for the cost of repairing the damage and restoring the Property to habitable condition; or

- recommend to Fannie Mae that the proceeds be applied to the UPB of the Mortgage Loan by submitting a request through the MAMP.

414.10 Property Restoration Requirements

All insurance loss proceeds will be held to reimburse the Borrower in increments for the cost of repairing the damage and restoring the Property. If the Property will be restored to habitable condition, the Servicer must:

- deposit all insurance loss proceeds in a Custodial Account meeting the requirements of Part V, Chapter 3: Custodial Accounts, to incrementally reimburse the Borrower for the cost of repairing the damage;

- require the Borrower to deposit, in the same Custodial Account, funds equal to the difference between (a) the Servicer’s estimate of the total cost to repair and restore the Property to its pre-casualty condition, and (b) the amount of the insurance proceeds;

- for losses greater than $75,000, prepare and have the Borrower execute the applicable Amendment to Multifamily...
Loan and Security Agreement (Restoration Reserve) (Form 6615) for use with the 6000 series Loan Documents if documented before the June 2019 Loan Document publication, or Insurance Loss Proceeds Collateral Agreement (Form 6639) for use with the 4000 series Loan Documents, specifying the terms and conditions under which the funds held in the Custodial Account will be released to the Borrower (Form 6615) is not required for Mortgage Loans with Loan Documents documented after the June 2019 Loan Document publication); and

■ submit a copy of any applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639) through the MAMP.

The Servicer may waive the above requirement that the Borrower deposit additional funds into the Custodial Account if (i) the Servicer deposits all insurance loss proceeds into the Custodial Account, and (ii) determines that the Borrower, Key Principals, and Principals have sufficient funds to repair and restore the Property when the insurance loss proceeds alone are insufficient.

Within 7 days of execution, the Servicer must submit through the MAMP copies of:

■ any applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639);

■ any Report of Multifamily Hazard Insurance Loss (Form 178); and

■ if required and completed, a copy of the Multifamily Catastrophic Loss Inspection (Form 4261).

The Multifamily Catastrophic Loss Inspection (Form 4261) must be submitted through the MAMP within 7 days after the later of:

■ the execution of any Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639); or

■ the completion of the Multifamily Catastrophic Loss Inspection (Form 4261).

The Servicer must send to Multifamily Certification and Custody within 15 Business Days the original executed copy of any Amendment to
Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639), and retain in its Servicing File the original:

- Multifamily Catastrophic Loss Inspection (Form 4261); and
- Report of Multifamily Hazard Insurance Loss (Form 178).

### 414.11 Commencement of Repair/Restoration Work

Before the Servicer disburses any funds to the Borrower for repair or restoration work the Servicer must:

- have any applicable executed Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639);
- have on deposit in a Custodial Account all insurance loss proceeds and, unless waived as provided above, sufficient Borrower funds to cover the estimated cost to complete the repair and restoration work;
- except in the case of minor casualties, have copies of all applicable building permits and other permits/authorizations required to carry out the repair and restoration work;
- except in the case of minor casualties, review (or have a qualified professional review) and approve any plans and specifications relating to the repair and restoration work;
- obtain from the Borrower the identities of each principal contractor, architect, and engineer who will be involved in the repair and restoration work, and be satisfied with their qualifications (including assurance each is appropriately licensed and bonded); and
- obtain evidence of builder’s risk insurance, if required, in accordance with Part II, Chapter 5: Property and Liability Insurance, Section 501.02E: Builder’s Risk Insurance.

Any emergency work required to protect the Property or correct a condition threatening the health or safety of the tenants must be undertaken immediately by the Borrower, even if the forgoing requirements have not been complied with.

### 414.12 Disbursements

#### 414.12A Prerequisites for Disbursement of Funds

Before disbursing funds, including the final disbursement, to the
Borrower for each disbursement request, the Servicer must be satisfied that:

- all repair and restoration work has been completed in a good and workmanlike manner and in accordance with any applicable plans and specifications, as evidenced by submissions from the Borrower and, if applicable, by the Servicer’s or a qualified professional’s inspection of the completed work;

- all related invoices for items and services have been paid, unless the Borrower has satisfied any applicable pre-conditions of the Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639) for issuance of a joint check made payable to the Borrower and the Person owed funds;

- the necessary release of Lien or Lien waivers have been submitted by all contractors, and no mechanics’ Liens, materialmen’s Liens, or other Liens are outstanding that have not been acceptably bonded over; and

- the Borrower is not in default under any Loan Document, including the Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639).

414.12B Disbursing Funds

The Servicer must approve and disburse funds related to each Borrower request in accordance with the Loan Documents, including any applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639). Funds must be disbursed no more frequently than once a month, unless:

- the Servicer determines that more frequent disbursements of funds are appropriate and can be managed effectively; or

- the disbursement is equal to or greater than $10,000, or is the final disbursement of proceeds.

414.12C Content of Disbursement Request

Each of the Borrower’s disbursement requests must be in writing and must specify, at a minimum:

- the specific repair and restoration work for which reimbursement is being sought;
- the quantity and price of all materials (grouped by type or category) or specific replacement items (e.g., appliances) purchased; and
- the cost of all contracted labor or other services.

The Borrower's disbursement requests must be accompanied by:

- a Borrower certification that the repair and restoration work was completed in a good and workmanlike manner, in accordance with any plans and specifications previously approved by the Servicer, and in compliance with all applicable laws, ordinances, rules, and regulations of any governmental authority, agency, or instrumentality having jurisdiction over the Property;

- if the invoice exceeds the lesser of $25,000 or 1% of the UPB:
  - a copy of the invoice detailing the covered materials, labor, or services;
  - payment evidence; and
  - a Lien release from each contractor, subcontractor, or materialman; and

- other relevant documentation required under the Loan Documents, including any applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639).

### Disbursement Amount

The amount of each disbursement (other than the final disbursement) may not exceed the lesser of:

(i) an amount equal to:

- the actual cost of the repair and restoration work covered by the disbursement request, or, if the work was done under a contract or subcontract pursuant to which other work remains to be done, an amount equal to 90% of the actual cost of the repair and restoration work covered by the disbursement request (i.e., a 10% holdback is required if the work under the applicable contract or subcontract has not been completed in full); plus

- 100% of the cost of any materials used, or to be used, in connection with the repair and restoration work, if at
the time of the disbursement request, title to the materials has passed to the Borrower and the materials have been installed, or are being properly stored, on the Property; or

(ii) an amount equal to the difference between:

- the balance of the Collateral Agreement Custodial Account at the time of the disbursement request; and
- the estimated cost of all remaining repair and restoration work at that time of the disbursement request.

414.12E Final Disbursement; Notice to Fannie Mae

Upon satisfactory completion of all required repair and restoration work, and satisfaction of all other applicable conditions of the Loan Documents, including any applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639), the Servicer must:

- disburse all remaining funds to the Borrower; and
- submit through the MAMP a final Report of Multifamily Hazard Insurance Loss (Form 178) to indicate that all work was satisfactorily completed.

414.12F Documentation in Servicing File

The Servicer must ensure that all actions taken with respect to each Borrower disbursement request are appropriately documented in its Servicing File.

414.13 Borrower’s Failure to Diligently Pursue Repair

The Servicer must notify Multifamily Asset Management immediately if the Borrower fails to:

- proceed diligently with any necessary repair and restoration work;
- perform the work satisfactorily; or
- perform in accordance with the terms of the Loan Documents, including any applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639).
The Servicer’s notice to Multifamily Asset Management must include a description of any steps that the Servicer is taking to resolve the situation.

### 414.14 Reimbursement of Administrative Costs

If the insurance loss proceeds include funds specifically designated to defray administrative costs incurred by the mortgagee in connection with the casualty loss, the Servicer may reimburse itself from this designated amount for its actual, reasonable administrative costs. If no such provision is made by the insurer, the Servicer may not seek reimbursement for its administrative costs from the proceeds, nor may the Servicer seek reimbursement separately from the Borrower.

### Section 415 Casualty Losses – Non-Performing Mortgage Loans

The Servicer must contact Multifamily Special Asset Management before performing a casualty loss assessment on a Property securing a Non-Performing Mortgage Loan. Fannie Mae will determine whether the Servicer should proceed with the assessment, and direct the Servicer accordingly. Any activity or action plans to repair or restore the Property must be approved by Fannie Mae. All insurance loss drafts and checks must be forwarded to Fannie Mae for endorsement and disposition.

### Section 416 Credit Facilities and Bulk Deliveries

#### 416.01 General

Each Credit Facility and Bulk Delivery transaction is different, therefore the requirements in this Section may not apply to every transaction. The Servicer must refer to the applicable Master Credit Facility Agreement, Bulk Delivery Agreement, and other Loan Documents for specific requirements.

#### 416.02 Delegation of Decisions

Credit Facility and Bulk Delivery requests are delegated to the Servicer as described below.

#### 416.02A Decisions and Actions Not Delegated

Decisions and actions are not delegated to the Servicer when a request involves:

- amendments or changes to the Master Credit Facility Agreement, Bulk Delivery Agreement, or equivalent agreement, except for the Fannie Mae standard form (i) Amendment for Completion/Repair extensions, and (ii) changes to the monthly
Replacement Reserve deposits;
- Supplemental Mortgage Loans or borrow-ups (future advances);
- additions, releases, or substitutions of collateral;
- revaluation and determination of the Allocable Facility Amount;
- Transfers/Assumptions;
- the interest rate conversion from variable to fixed on a SARM Loan;
- Interest Rate Hedge renewals or modifications;
- refinances;
- defeasance;
- payoffs/terminations;
- Ground Lease or operating lease modifications; or
- Property management or operator changes.

**416.02B Decisions Delegated by the Delegated Transaction Form 4636 series**

Decisions and actions covered by the Delegated Transaction Forms (Form 4636 series) are delegated to the Servicer as set forth in the applicable Form 4636 series. For these requests, the Servicer must submit the completed Delegated Transaction Form (Form 4636 series) through the MAMP.

**416.02C Other Delegated Decisions**

Decisions and actions involving the following are delegated to the Servicer to the extent delegated in this Chapter:

- Letter of Credit replacements and draws;
- Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreements (Form 6639);
- endorsing insurance checks;
- extensions to complete Completion/Repairs;
- changes to the monthly Replacement Reserve deposits;
- administering escrow accounts; and
- administering Collateral Agreements.
If the Servicer has any questions regarding the need for Fannie Mae approval, the Servicer must contact Multifamily Structured Asset Management prior to proceeding.

### 416.03 Approval Requests

If Fannie Mae approval is required, the Servicer must submit a request through the MAMP. Any approval request must include the Servicer’s recommendation, any supporting documentation (including references to the relevant sections of the governing documents), and the Servicer’s analysis supporting its recommendation.

### 416.04 Release and Substitution Requests

To the extent permitted by the provisions of the Master Credit Facility Agreement, Bulk Delivery Agreement, and the other Loan Documents, Borrowers may have the ability to release or substitute collateral. These requests must follow the provisions of the Loan Documents, and are not delegated under this Section.

The Borrower must initiate the release/substitution process by submitting a written request to the Servicer. Upon receipt, the Servicer must submit a release/substitution request package through the MAMP that includes:

- the Servicer’s summary of the Borrower’s release/substitution request, and its recommendation regarding approval of the requested release/substitution;
- any waiver requests and the Servicer’s recommendation for approval of each waiver;
- when the Borrower expects the release/substitution to close;
- whether the Property meets all conditions to release/substitute and compliance tests (e.g., LTV, DSCR, geographic/asset concentration) stipulated in the Master Credit Facility Agreement, Bulk Delivery Agreement, and other Loan Documents;
- for a Credit Facility, the release price and calculations (calculated according to the terms of the Master Credit Facility Agreement and other Loan Documents);
- for a Credit Facility, the remaining Allocable Facility Amount balance of the facility and each property after the release;
- the amount of the release/substitution fees associated with the transaction;
- whether a prepayment or advance of funds is expected to
occur in connection with the transaction;

- the Structured Facilities Monitoring Spreadsheet (Form 4802) showing the Mortgage Loan level and collateral level data for the Structured Transaction both before and after the release/substitution occurs;

- third-party reports; and

- any other items required by the Loan Documents.

If a Letter of Credit or cash collateral is required as part of the request, the Servicer must enter the Letter of Credit or cash collateral information in MSFMS. Any Letter of Credit must meet the requirements of Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit. Original Letters of Credit must be sent to Multifamily Structured Acquisitions.

If the request is approved, the Servicer must:

- submit its payoff calculations to Multifamily Structured Acquisitions;

- release the collateral from the MSFMS system; and

- if necessary, release, update, and verify any interest rate hedges associated with the transaction in MSFMS.

### 416.05 Borrow-Up (Future Advance) Requests

To the extent permitted by the Master Credit Facility Agreement, Bulk Delivery Agreement, and the other Loan Documents, the Borrower may have the ability to obtain a Future Advance. These requests must follow the requirements of the applicable Loan Documents, and approval is not delegated to the Servicer.

The Borrower must initiate the Borrow-Up process by submitting a written request to the Servicer. Upon receipt, the Servicer must submit a Borrow-Up request package through DUS Gateway that includes:

- the Servicer’s summary of the Borrower’s Borrow-Up request and its recommendation for approval;

- any waiver requests and the Servicer’s recommendation for approval of each waiver;

- the amount of the Borrow-Up and the supporting underwriting spreadsheets and calculations (calculated per the terms of the Master Credit Facility Agreement and other Loan Documents);

- when the Borrower expects the Borrow-Up to close;

- whether the Property meets all conditions and compliance tests (e.g., LTV, DSCR, geographic/asset concentration) for a
Borrow-Up per the applicable Loan Documents;

- a quote sheet;
- a Sources and Uses statement;
- any Interest Rate Hedge requirements;
- for a Credit Facility, the remaining Allocable Facility Amount balance of the Credit Facility and each Property after the Borrow-Up;
- itemized Borrow-Up fees associated with the transaction;
- the Structured Facilities Monitoring Spreadsheet (Form 4802) showing the Mortgage Loan level and collateral level data for the Structured Transaction both before and after the release/substitution occurs; and
- any other items required by the Loan Documents.

### 416.06 Facility Revaluations

Revaluations of Credit Facilities and Bulk Deliveries occur as required by the Master Credit Facility Agreement and Bulk Delivery Agreement. Servicers must send recommended property cap rates and values along with supporting market information through the MAMP. Upon completion of Fannie Mae’s review, the Servicer will be notified of the final cap rate determination and valuation. The Servicer must promptly notify the Borrower of the revised cap rates, Property values, Allocable Facility Amounts, LTV, and the failure to meet any compliance tests (if applicable). The Servicer must attach a copy of this Borrower correspondence to the request in the MAMP.

### 416.07 Supplemental Mortgage Loans Not Permitted

Supplemental Mortgage Loans on Properties that are part of a Credit Facility or a Bulk Delivery are not permitted unless expressly authorized under the Master Credit Facility Agreement, Bulk Delivery Agreement, and other Loan Documents. The Servicer must contact Multifamily Structured Asset Management before underwriting a Supplemental Mortgage Loan.

### 416.08 Additional Information

For any issue not covered in this Section, or if the Servicer requires a more detailed explanation, contact Multifamily Structured Asset Management.

### Section 417 Seniors Housing Properties
417.01 General

The requirements in this Section may not apply to every Seniors Housing Mortgage Loan. The Servicer must refer to the Loan Documents for specific requirements.

417.02 Decisions and Actions Delegated and Not Delegated

Decisions and actions covered by the Delegated Transaction Form (Form 4636 series) are delegated to the Servicer as set forth in the applicable Form 4636 series or the Guide. For these requests, the Servicer must submit the completed applicable Form 4636 series through the MAMP. Decisions and actions for Seniors Housing Mortgage Loans regarding the following are not delegated to the Servicer:

- Seniors Housing expansions/conversions, including constructing additional units, substantial alterations, Seniors Housing Major Renovations, and Seniors Housing Minor Renovations;
- changes in the Seniors Housing operator;
- changes in Property management or management agreements;
- changes in licensing (Note: All licensing changes require an Opinion of Borrower’s Counsel on Origination of Mortgage Loan (Seniors Housing Licensing) (Form 6450.SRS) confirming that all licensing requirements have been met);
- Seniors Housing operator Leases; and
- master leases.

If the Servicer has any questions regarding the need for Fannie Mae approval, the Servicer must contact Multifamily Seniors Housing Property Asset Management before proceeding.

417.03 Approval Requests

The Servicer must refer to the Loan Documents and this Section to determine whether Fannie Mae approval is required for a particular request. If Fannie Mae approval is required, the Servicer must submit a request through the MAMP. Any approval request must include the Servicer’s recommendation, any supporting documentation (including references to the relevant sections of the governing documents), and the Servicer’s analysis supporting its recommendation.

417.04 Seniors Housing Expansion/Conversion Requests
Unless expressly permitted by the Loan Documents, requests by the Borrower for the construction of additional units, renovation, or expansion of a Seniors Housing Property, or a change in the overall percentage of one Seniors Housing type of unit (e.g., Independent Living, Assisted Living, or Alzheimer’s/Dementia Care) into another are not delegated to the Servicer. The Borrower must request approval from the Servicer and Fannie Mae before proceeding, and Fannie Mae will consider these requests under the following parameters, conditions, and requirements:

417.04A Permitted Purpose

To allow for the construction of additional units on existing land, or the renovation and/or repositioning of existing units:

- a “Seniors Housing Major Renovation” is any physical improvement costing in excess of (i) $20,000/unit, or (ii) $3 million in total project costs; and
- a “Seniors Housing Minor Renovation” is any physical improvement that is not a Seniors Housing Major Renovation, but which increases the number of units, or converts one type of unit into another, unless expressly permitted by the Loan Documents.

417.04B Submission Requirements

Upon receipt of a Borrower Seniors Housing Expansion/Conversion Request, the Servicer must submit a written request through the MAMP, and include the following:

- Sponsor name and experience in operating seniors housing properties;
- Mortgage Loan performance;
- financial performance (including NCF and UPB history, and DSCR and LTV trends);
- pro forma financial statements;
- sources/uses of funds statement;
- project budget, scope, and plans;
- market study;
- construction contract and timeline;
- Servicer’s monitoring plan;
- licensure issues;
insurance; and
general contractor and major subcontractors.

Fannie Mae will review the completed request, and approve or decline the request in its sole discretion.

417.04C  Requirements and Monitoring

For a Seniors Housing Expansion/Conversion Request approved by Fannie Mae, the following requirements will apply:

- Escrow:
  - the Borrower must escrow 25% of the estimated construction costs with the Servicer, who will administer the funds through a standard construction draw process; and
  - the Borrower must demonstrate to the Servicer’s satisfaction that it has sufficient liquid assets to complete the construction;

- Minimum DSCR during the expansion/conversion period cannot fall below 1.15x;

- Completion of construction must occur no later than 18 months from the date of commencement;

- Construction monitoring requirements will be set forth in the approval letter;

- Fannie Mae will charge a construction monitoring fee which does not cover the expenses associated with third-party inspections;

- Completion Guaranty (Form 6018, Form 6632, or Form 6633) and, if determined applicable by Fannie Mae, an Agreement and Assignment Regarding General Contractor’s Contract (Form 6473), and an Omnibus Assignment of Contracts, Plans, Permits, and Approvals (Form 6473), will be required;

- Fannie Mae will charge a change in use fee, and the Servicer may charge additional fees at its discretion, subject to approval by Fannie Mae;

- The Borrower must reimburse all legal costs incurred by Fannie Mae; and

- A fixed-price general construction contract provided by a general contractor, together with a payment and performance bond issued by an acceptable surety, will be required.
417.04D  Construction Completion Requirements

Within 60 days of completing any Seniors Housing Major Renovation or Seniors Housing Minor Renovation, the Borrower must deliver to the Servicer, and the Servicer must provide to Fannie Mae, the following:

- title endorsement to the existing mortgagee title policy, confirming that no mechanics’ Liens, materialmen’s Liens, or other Liens exist that have not been acceptably bonded over;
- final lien waivers from all contractors, architects, subcontractors, and material suppliers;
- copies of updated or newly issued certificates of occupancy;
- renewed licenses;
- confirmation in the form of an Opinion of Borrower’s Counsel on Origination of Mortgage Loan (Seniors Housing Licensing) (Form 6450.SRS) that all licensing requirements have been met;
- certificate from the Borrower, architect, and contractor certifying to the Servicer, for the benefit of Fannie Mae, that the improvements:
  - are completed in accordance with the plans and specifications approved by Fannie Mae; and
  - meet the local zoning and planning restrictions, and all other governmental requirements;
- final inspection of completed Improvements;
- updated certified operating statement and rent roll for the Seniors Housing Property; and
- a survey showing any new Improvements on the Seniors Housing Property.

417.04E  Request Changes in Unit Count/Mix in the MAMP

Within 60 days of completion of any Seniors Housing Major Renovation or Seniors Housing Minor Renovation, the Servicer must request any applicable change in unit count and/or unit mix (IL, AL, ALZ) in the MAMP resulting from the renovation.

Section 418  Credit Enhancement Mortgage Loans and Multifamily Affordable Housing Properties

418.01  Bond Transactions and Credit Enhancement Mortgage Loans
For any Credit Enhancement Mortgage Loan where Fannie Mae is providing credit enhancement for tax-exempt multifamily housing Bonds, the Borrower must provide the Servicer with a copy of the compliance monitoring statement required under the Bond Documents. If the Borrower’s statement reflects noncompliance with the low- and moderate-income tenant occupancy requirements set forth in the Affordable Regulatory Agreement, or if the Borrower fails to provide the statement to the Servicer, the Servicer must notify Multifamily Asset Management, and retain the compliance monitoring statement in its Servicing File.

### 418.02 Compliance Issues Relative to Bond Credit Enhancement Transactions

The Servicer must monitor the Interest Reserve Requirement, if any, under the Bond Trust Indenture with respect to each Credit Enhancement Mortgage Loan.

The Servicer must monitor the rating of the institution in which the accounts under any Cash Management, Security, Pledge, and Assignment Agreement are held, and must require the Borrower to move the accounts if the rating no longer meets Fannie Mae’s requirements as provided in Part V, Chapter 3: Custodial Accounts.

### 418.03 Monitoring Compliance; Notification of Noncompliance

#### 418.03A Affordable Regulatory Agreement

At least once in each calendar year (and more often if directed by Fannie Mae), the Servicer must obtain a Borrower certification that the Property is in full compliance with:

- the rules qualifying the interest on the Bonds for exclusion from gross income for federal income tax purposes pursuant to the Internal Revenue Code; and
- the requirements of the Affordable Regulatory Agreement.

The Servicer must review the Borrower certificate, and if the Property does not comply with all applicable regulatory requirements, the Servicer must immediately notify Multifamily Asset Management. Neither Fannie Mae nor the Servicer is responsible for determining or ensuring the Borrower’s compliance under the Affordable Regulatory Agreement.

#### 418.03B Default Notice for Failure to Comply with the Bond Documents

The Servicer must promptly notify Multifamily Asset Management, the Borrower, the Bond Trustee, and the Issuer in writing of any default by a Borrower with any provision of any Loan Document, Reimbursement Agreement, Security Agreement, the Affordable Regulatory Agreement, or other Loan Document, Credit Enhancement Document, or Bond Document.
The Servicer must promptly forward to Multifamily Asset Management copies of any notices received from a Borrower, Bond Trustee, Issuer, or any other party regarding any default by a Borrower, and shall maintain ongoing contact with Fannie Mae regarding the status of the Credit Enhancement Mortgage Loan by submitting a Non-Monetary Default Borrower Request in the MAMP.

### 418.04 Multifamily Affordable Housing (MAH) Properties

The Servicer must collect annual compliance documentation in the form of:

- for an MAH Property with Sponsor-Initiated Affordability, certifications from the Borrower and Administering Agent of compliance with the Sponsor-Initiated Affordability Agreement; or
- for any other MAH Property, the annual recertification of the Property’s compliance with the Affordable Regulatory Agreement from the agency or entity that imposed any applicable rent or occupancy restrictions or, if not available, an explanation of why it is not available.

The Servicer must immediately submit a Non-Monetary Default Borrower Request in the MAMP to notify Multifamily Asset Management if this documentation reveals any event of default or noncompliance with the applicable:

- Sponsor-Initiated Affordability Agreement; or
- Affordable Regulatory Agreement.

The Servicer must retain the annual compliance documentation in its Servicing File.

### 418.05 Low-Income Housing Tax Credits

If the Property is subject to a Low-Income Housing Tax Credit allocation, the Servicer must obtain, at least once in each calendar year (and more often if directed by Fannie Mae):

- copies of the tax and other compliance forms specified in Part III, Chapter 7: Multifamily Affordable Housing Properties; and
- Borrower certifications of the Property’s compliance with the requirements of the Internal Revenue Code regarding Low-Income Housing Tax Credits; and
- if the Low-Income Housing Tax Credits have not yet been
syndicated, monthly reports from the Borrower detailing the Borrower’s progress in syndicating the tax credit allocation until the syndication is completed.

If the Borrower indicated that the Property does not comply with all applicable regulatory requirements, the Servicer must immediately submit a Non-Monetary Default Borrower Request in the MAMP. Neither Fannie Mae nor the Servicer is responsible for determining or ensuring the Borrower’s compliance with Low-Income Housing Tax Credit requirements. The Servicer also must comply with the information requirements of Part III, Chapter 7: Multifamily Affordable Housing Properties.

418.06 Enhanced Resident Services

The Borrower must annually recertify the Property and submit each recertification to the Servicer within 75 days following the end of each Loan Year. The Servicer must collect the initial certification and each recertification in the Servicing File. For any recertification failure, the Servicer must promptly notify Fannie Mae through the MAMP, or such other method indicated by Fannie Mae. Additionally, the Servicer must promptly submit a Non-Monetary Default Borrower Request in the MAMP if the Property later achieves recertification. After recertification, the Servicer must then resume annual compliance monitoring at the end of each subsequent Loan Year.

418.07 Expanded Housing Choice

A Mortgage Loan with an Expanded Housing Choice pricing incentive requires additional monitoring. Per the Loan Documents, the Servicer must:

- receive from the Borrower a Supplemental Annual Loan Agreement Certification (Expanded Housing Choice) (Form 6620.Supplemental.Expanded Housing Choice), including:
  - a rent schedule or rent roll identifying all units where rent is paid using Housing Choice Vouchers;
  - a report for all rental applications seeking to use Housing Choice Vouchers, including:
    - the number of rental applications;
    - the current status; and
    - an explanation for all denied applications; and
  - for the first annual Certification, complete lease files for at least 25% of the tenants paying rent using Housing Choice
Vouchers;

- review Form 6620.Supplemental.Expanded Housing Choice and the rent roll for reasonableness and completeness, and notify Fannie Mae via a Borrower Request in the MAMP of any Certification issues, including non-delivery;

- within 30 days after receiving the first Form 6620.Supplemental.Expanded Housing Choice, compare the Housing Choice Voucher lease files to the rent roll and notify Fannie Mae via a Borrower Request in the MAMP of any discrepancies;

- ensure the Borrower conducts any Fair Housing training required by Fannie Mae for its employees;

- submit a Non-Monetary Default Borrower Request in the MAMP if the required Fair Housing training is not completed within the required timeframe;

- notify the Borrower in writing of any default under the Loan Documents and any required recapture of the pricing incentive;

- submit a copy of any Borrower notice for recapturing the pricing incentive via a Non-Monetary Default Borrower Request in the MAMP; and

- retain in its Servicing File, copies of:
  - Form 6620.Supplemental.Expanded Housing Choice and the rent roll;
  - the results of the rent roll and lease file review submitted with the first Form 6620.Supplemental.Expanded Housing Choice; and
  - any Borrower notices required for:
    - Fair Housing training;
    - Loan Document default; or
    - pricing incentive recapture.

Fannie Mae:

- may conduct Fair Housing testing for a Mortgage Loan delivered with an Expanded Housing Choice pricing incentive;

- will notify the Servicer if the Fair Housing testing or any other information reveals the Borrower is not complying with Part II, Chapter 1: Attributes and Characteristics, Section 101.02:
Expanded Housing Choice; and

- for any noncompliance, may:
  - require the Borrower’s employees to complete Fair Housing training; and/or
  - notify the Borrower it is in default and require the Borrower to repay the pricing incentive per the Multifamily Loan Agreement and Payment Guaranty (Pricing Incentive Recapture) (Form 6020.PIR).

### 418.08  HAP Contract Approval and Releasing Restabilization Reserve

The Servicer is delegated the authority to:

- approve renewal of the HAP Contract during the Mortgage Loan term; and
- waive any Loan Document provision requiring the HAP Contract to be fully funded by HUD through the Mortgage Loan Maturity Date.

The Servicer must submit through the MAMP a copy of the renewed HAP Contract, and retain a copy in the Servicing File, together with any Borrower request for release of the Restabilization Reserve.

Most disbursements from a Restabilization Reserve require Fannie Mae’s approval. The Servicer is delegated the authority to approve, without Fannie Mae’s consent, a Borrower request for a final disbursement, provided:

- the Servicer has received written evidence that the HAP contract has been extended by HUD through the Maturity Date with no material changes to its terms;
- no default has occurred and is continuing under the Loan Documents; and
- the Loan Documents explicitly allow a final disbursement under these conditions.

### Section 419  Sponsor-Dedicated Workforce Housing Properties

Per the Loan Documents, to monitor an SDW Housing Property, the Servicer must:

- annually review the rent roll and sufficient lease files to determine Borrower compliance with the required rent restrictions;
receive an annual Supplemental Annual Loan Agreement Certification (Sponsor-Dedicated Workforce Housing) (Form 6620.Supplemental.SDW) from the Borrower, and:

- attest to the Form 6620.Supplemental.SDW that the Servicer has audited the rent roll for Borrower compliance with the required rent restrictions; or
- for any noncompliance:
  - notify the Borrower of the default; and
  - submit a Non-Monetary Default Borrower Request in the MAMP;

- retain in the Servicing File, copies of:
  - Modifications to Multifamily Loan and Security Agreement (Sponsor-Dedicated Workforce Housing) (Form 6271.SDW);
  - Modifications to Security Instrument (Sponsor-Dedicated Workforce Housing) (Form 6325);
  - Property rent restrictions;
  - annual rent roll and compliance results; and
  - any Loan Document default Borrower notices; and

- per the Sponsor-Dedicated Workforce (SDW) Housing Job Aid, annually submit copies of the:
  - Form 6620.Supplemental.SDW and Servicer attestation; and
  - Property rent roll.

Section 420 MH Communities with Tenant Site Lease Protections

A Mortgage Loan secured by an MH Community with Tenant Site Lease Protections requires additional monitoring. The Loan Documents require the Borrower to annually provide:

- a certified copy of the current residential MH Site Lease form;
- a certified copy of the notice sent to all MH Site Lease tenants if the Tenant Site Lease Protections were implemented by the Rules and Regulations;
- copies of any actual MH Site Lease requested by Lender; and
a certification of the actual percentage of MH Site Leases that include all required Tenant Site Lease Protections, and that no material changes have been made to the MH Community’s rules and regulations or to the MH Site Lease form.

The Servicer must:

- confirm the Borrower's on-going compliance with the Loan Documents;
- if the Tenant Site Lease Protections were implemented within the MH Community’s rules and regulations, confirm:
  - the rules and regulations contain all Tenant Site Lease Protections and are publicly posted in the MH Community; and
  - each MH Site Lease tenant received written notice of all Tenant Site Lease Protections added to the rules and regulations;
- if the Tenant Site Lease Protections were implemented within the MH Site Lease:
  - confirm the MH Site Lease form includes:
    - all Tenant Site Lease Protections; and
    - the required percentage of MH Site Leases (i.e., 25%, 50%, or 100%) are covered by the Tenant Site Lease Protections; and
  - annually audit at least 25% of the minimum percentage of MH Site Leases required per the Loan Documents (i.e., 25%, 50%, or 100%) to ensure all Tenant Site Lease Protections are included;
- determine whether the Borrower complied with all terms of the Tenant Site Lease Protections (e.g., the Borrower only raised MH Site Lease rents after required notice);
- retain the review of the Borrower's certification and audit results in the Servicing File; and
- notify Multifamily Loss Mitigation if the Borrower fails to certify compliance, or the MH Site Lease audit discloses potential noncompliance.

**Section 421  Single Asset Entity Conversion**

If the Loan Documents require the Borrower to convert into a single
asset entity that complies with Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302.01: Single-Asset Entity by a certain date, the Servicer is delegated the authority to:

- grant a one-time extension of the date by up to 90 days;
- determine whether the extension requires an amendment to the Multifamily Loan Agreement; and
- document it in any form that the Servicer deems legally enforceable.

### Section 422 Loan Document Amendments

Provided the change does not violate the Disclosure Documents or the Fannie Mae Master Trust Agreement, the Servicer is delegated the authority to modify the Loan Documents for a Portfolio Mortgage Loan to:

- align with the approved terms for a Supplemental Mortgage Loan; or
- cross-default and/or cross-collateralize the Portfolio Mortgage Loan with a subsequent Mortgage Loan.

This delegated authority includes executing all Loan Document amendments related to:

- a subordinate lien, including any Mortgage Loan modification for a Supplemental Mortgage Loan with a confirmed Commitment;
- cross-collateralizing and/or cross-defaulting a Pre-Existing Mortgage Loan with a Supplemental Mortgage Loan with a confirmed Commitment; and
- cross-collateralizing and/or cross-defaulting a first Lien Mortgage Loan with another first Lien Mortgage Loan (e.g., for a phased property), provided that cross-collateralization and cross-default were contemplated in the Loan Documents for the Portfolio Mortgage Loan and there is a confirmed Commitment for the second first Lien Mortgage Loan.

### Section 423 Maturing Mortgage Loans

#### 423.01 Written Policy

The Servicer must establish a written policy for maturing Mortgage Loans, including:
• overall monitoring responsibilities;
• criteria for handoffs between functional groups (e.g., Special Asset Management, Special Credits, etc.);
• Fannie Mae reporting;
• sending Borrower maturity notification letters; and
• determining the Mortgage Loan’s refinance eligibility.

### 423.02 Refinance Eligibility

On a monthly basis, beginning at least 24 months before each Mortgage Loan’s Maturity Date, the Servicer must evaluate the Property’s operating performance to determine the likelihood that the Mortgage Loan UPB can be refinanced based on the current cap rate, and the DSCR and NCF from the Property’s most recent annual financial statement.

Participants from the Servicer’s underwriting, asset management, portfolio management, and finance teams must coordinate to categorize each Mortgage Loan as either:

- “Meets Criteria” = the Mortgage Loan qualifies for refinancing based on the currently published underwriting criteria of Fannie Mae or a third party; or
- “Does Not Meet Criteria” = the Mortgage Loan does not qualify for refinancing based on the currently published underwriting criteria of Fannie Mae or a third party.

For each Mortgage Loan categorized as “Does Not Meet Criteria”, the Servicer must:

- review the Property’s quarterly operating statements and analyze the operating expenses (especially repairs & maintenance and capital expenses) to assess whether the Borrower is prudently managing the Property; and
- work with the Borrower and Fannie Mae to ensure the Borrower has a reasonable payoff plan.

### 423.03 Borrower Communications

The Servicer must send the following maturity notification letters to the Borrower:

- 18 months before the Mortgage Loan Maturity Date, send the first maturity notification letter notifying the Borrower of the upcoming Maturity Date (18 Month Notice to Borrower – Choice
Refinance Loans (Form 4217)).

- 12 months before the Mortgage Loan Maturity Date, send the applicable second maturity notification letter (12 Month Notice to Borrower Marketing Oriented – Choice Refinance Loans (Form 4218) or 12 Month Notice to Borrower – In Place Loans (Form 4219)):
  - notifying the Borrower of the upcoming Maturity Date;
  - providing Servicer contact information; and
  - requesting a detailed payoff plan.

- 6 months before the Mortgage Loan Maturity Date, send the 6 Month Notice to Borrower – In Place Loans (Form 4220):
  - notifying the Borrower of the upcoming Maturity Date;
  - requesting proof of a payoff plan (e.g., a commitment letter from another lender or sale contract); and
  - advising the Borrower that the Mortgage Loan will be in default if not paid off or refinanced.

Within 6 months of the Maturity Date, the Servicer must aggressively pursue a maturity solution for any Mortgage Loan that “Does Not Meet Criteria” until the Borrower provides written proof of a payoff plan, which may include a certified escrow letter, contact information for the new lender with appropriate follow-up by the Servicer, or other reasonable evidence.

423.04 Fannie Mae Communications

On the first Business Day of each month, the Servicer must submit a Maturing Loan Report using the mandated template to Multifamily Maturity Management with information on each Mortgage Loan maturing within the next 24 months (or advising that no Mortgage Loans are maturing within the next 24 months), and categorizing each as “Meets Criteria” or “Does Not Meet Criteria” in the Performance Rating column. The Servicer must also update the Maturing Loan Report as new information becomes available with each monthly submission.

The comments section of the Maturing Loan Report must include, at a minimum:

- a report of discussions with the Borrower (e.g., potential new lender, term of new loan, proof of payoff plan received);
- the anticipated payoff date; and
- whether the Mortgage Loan is likely or not to refinance, and the
rationale.

All other Fannie Mae notices related to maturing Mortgage Loans, including default notices, must be sent to Multifamily Maturity Management.
Chapter 5  Surveillance

Section 501  Generally

☑ Requirements

You must:

■ Monitor the Property by:
  ■ inspecting it;
  ■ evaluating its financial performance; and
  ■ submitting the inspection and evaluation results per this Chapter.

■ Ensure the Borrower manages and maintains the Property per the Loan Documents.

Section 502  Property Inspections

502.01 Forms

☑ Requirements

For all Property inspections, you must use

■ the MBA Standard Inspection Form, or
■ if a Catastrophic Event has occurred, the Multifamily Catastrophic Loss Inspection form (Form 4261).

For a Green Rewards Mortgage Loan, you must also submit the Green Rewards Verification Inspection Form (Form 4221) per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 408.03I: Green Rewards Efficiency Measure Verification.

🌱 Operating Procedures

On the MBA Standard Inspection Form, you must:

1. Select the “Fannie Mae Inspection” option on the Tools tab.

2. Complete the following tabs:
  ■ “General Information”;
  ■ “Physical Condition & Deferred Maintenance”;
  ■ “Photos”;
3. Assign an overall rating per Fannie Mae’s Ratings Scale Definitions.

### 502.02 Property Condition Concerns

#### Operating Procedures

<table>
<thead>
<tr>
<th>If the Property has...</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>• an inspection rating of 4 or 5 per the Fannie Mae Assessment Addendum tab of the MBA Standard Inspection Form; • incomplete repairs per the specified timing in the Loan Documents; • significant deferred maintenance; or • non-significant deferred maintenance that was not corrected within 12 months after notifying the Borrower.</td>
<td>• Inform Multifamily Inspections and Multifamily Loss Mitigation:  - promptly after receiving notice of any Life Safety Issues per Part V, Chapter 5: Surveillance, Section 502.06F: Life Safety Issues; or  - otherwise within 10 Business Days after becoming aware. • Reinstall any suspended Completion/Repair Escrow or Replacement Reserve if the Property inspection rating is 4 or 5, unless the rating resulted from a casualty loss (see Part V, Chapter 5: Surveillance, Section 502.06E: Collateral Analysis). • Inspect the Property as necessary to ensure the Borrower resolves any deferred maintenance. • Regardless of whether the Mortgage Loan is on a Watchlist, submit a request to Multifamily Loss Mitigation before ordering a PCA (excluding regularly-scheduled PCAs required per the Loan Documents). • Identify the appropriate Fannie Mae risk rating per Part V, Chapter 6: Watchlist Management.</td>
</tr>
</tbody>
</table>

### 502.03 Property Inspection Protocol

#### Guidance
Property inspection frequency is based on

- the current Fannie Mae risk rating,
- the Mortgage Loan amount at the Mortgage Loan Origination Date, and
- a full inspection (unless otherwise noted) of the specified percentage of units per the Property Inspection Protocol table criteria, but not:
  - less than the specified minimum; and
  - more than the specified maximum.

If the scheduled inspection due date is within 6 months of the Maturity Date, the MAMP inspection due date will be set to 6 months before the Maturity Date.

**Operating Procedures**

### Property Inspection Protocol

<table>
<thead>
<tr>
<th>Type</th>
<th>Fannie Mae Risk Rating</th>
<th>Inspection Frequency</th>
<th>Number of Units to Inspect</th>
<th>Minimum # of Photos</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Mortgage Loans</td>
<td>• Pass, • Pass-Watch, or • Special Mention</td>
<td>Annual</td>
<td>5%</td>
<td>5/15</td>
</tr>
<tr>
<td>Substandard</td>
<td></td>
<td>Annual</td>
<td>10%</td>
<td>10/20</td>
</tr>
</tbody>
</table>

If the original Mortgage Loan Amount is greater than $6 million and less than or equal to $30 million...

NOTE: DSCR is per the most recent annual financial statement submitted to Fannie Mae.

<table>
<thead>
<tr>
<th>Type</th>
<th>Fannie Mae Risk Rating</th>
<th>Inspection Frequency</th>
<th>Number of Units to Inspect</th>
<th>Minimum # of Photos</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most Recent Inspection rating of 4 or 5</td>
<td>All Ratings</td>
<td>Annual</td>
<td>10%</td>
<td>10/20</td>
</tr>
</tbody>
</table>
### Property Inspection Protocol

<table>
<thead>
<tr>
<th>Type</th>
<th>Fannie Mae Risk Rating</th>
<th>Inspection Frequency</th>
<th>Minimum # of Photos</th>
<th>Inspector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maturing</td>
<td>All Ratings</td>
<td>Within 12 months before Maturity Date</td>
<td>Per applicable Mortgage Loan type.</td>
<td></td>
</tr>
<tr>
<td>All Others</td>
<td>• Pass, Pass-Watch, or Special Mention; and • DSCR ≥ 1.35, or Co-op DSCR ≥ 1.00. Annual</td>
<td>5%</td>
<td>5/15</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>• Pass, Pass-Watch, or Special Mention; and • DSCR &lt; 1.35, or Co-op DSCR &lt; 1.00. Annual</td>
<td>5%</td>
<td>5/15</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Substandard Annual</td>
<td>10%</td>
<td>10/20</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Third-Party, or In-House</td>
<td>5%</td>
<td>5/15</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>In-House Only</td>
<td>10%</td>
<td>10/20</td>
<td>15</td>
</tr>
</tbody>
</table>

If the original Mortgage Loan Amount is $6 million or less...

NOTE: If the Property has 10 units or less, at least 2 units must be inspected.
## Property Inspection Protocol

<table>
<thead>
<tr>
<th>Rating</th>
<th>Inspection Frequency</th>
<th>Interest Rate</th>
<th>Payment Date</th>
<th>Maturity Date</th>
<th>Additional Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seniors Housing, or Rent-Stabilized</td>
<td>Annual</td>
<td>5%</td>
<td>5/15</td>
<td>15</td>
<td>• Third-Party, or • In-House</td>
</tr>
<tr>
<td>Substandard</td>
<td>Annual</td>
<td>10%</td>
<td>10/20</td>
<td>15</td>
<td>In-House Only</td>
</tr>
<tr>
<td>Maturing</td>
<td>All Ratings</td>
<td>Within 12 months before Maturity Date</td>
<td>Per applicable Mortgage Loan type.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Others</td>
<td>• Pass, Pass-Watch, or Special Mention; and • Delivered Mortgage Loan Amount &lt; $750,000.</td>
<td>Walk Around every 5 years</td>
<td>N/A</td>
<td>N/A</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>• Pass, Pass-Watch, or Special Mention; and • Delivered Mortgage Loan Amount &gt; $750,000.</td>
<td>Every 2 years</td>
<td>5%</td>
<td>2/5</td>
<td>10</td>
</tr>
<tr>
<td>Substandard</td>
<td>Annual</td>
<td>10%</td>
<td>2/5</td>
<td>10</td>
<td>In-House Only</td>
</tr>
</tbody>
</table>

### 502.04 Scheduling and Submissions

#### 502.04A Scheduling

#### Operating Procedures

You must:

- ensure Property inspections are performed per Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocol; and
- allow enough time to submit the Property inspection form by the MAMP submission due date.
For scheduling efficiency, you may request 1 automatic extension for up to 60 days after the submission due date if:

- you request it before the original submission due date using the "Modification Request" tab within the MAMP;
- the Fannie Mae risk rating is not Substandard;
- the most recent Property inspection rating is:
  - 1 or 2; or
  - 3 if the inspection is less than 1 year old; and
- the extended MAMP submission due date is at least 6 months before the Maturity Date.

**Guidance**

502.04B  Submissions

**Operating Procedures**

You must:

- Submit via the MAMP:
  - the origination inspection form:
    - within 45 days after Fannie Mae purchases the Mortgage Loan and loads it into the MAMP; and
    - no later than the MAMP submission due date; and
  - each subsequent inspection form:
    - within 60 days after the Property inspection date; and
    - no later than the MAMP submission due date.

- Timely resolve all issues Fannie Mae identifies.

See the MAMP User Guide for Property inspection form submission information.

If the Property inspection is inadequate, Fannie Mae may require you to obtain a new inspection at your expense.
502.05A Qualifications

☐ Requirements

You must ensure any inspector:

- Meets 1 of the following:

  1. Is certified by the:
     - Real Estate Assessment Center for HUD as a Certified Home Inspector;
     - American Society of Home Inspectors (ASHI); or
     - International Association of Certified Home Inspectors (InterNACHI).

  2. Is a:
     - state-certified home inspector;
     - registered architect; or
     - civil engineer.

  3. Successfully completed other acceptable training, including the MBA's School of Multifamily Property Inspections.

- Has the following minimum experience:

<table>
<thead>
<tr>
<th>Type</th>
<th>Minimum Inspection Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Housing Mortgage Loans</td>
<td>10 seniors housing property inspections</td>
</tr>
<tr>
<td>Substandard Fannie Mae Risk Rating</td>
<td>25 multifamily property inspections</td>
</tr>
<tr>
<td>All Others</td>
<td>10 multifamily property inspections</td>
</tr>
</tbody>
</table>

502.05B Third Parties

☐ Requirements

Any third-party inspector must:

- have no financial interest in the inspected Property;
- have experience in the Property's market; and
- not reassign responsibility to another Person without your approval.
Guidance

Fannie Mae reserves the right, in its sole discretion, to notify you that a third-party inspector or inspection firm is unacceptable.

### 502.06 Content

#### 502.06A Unit Selection

**Operating Procedures**

When selecting units:

- The inspector, not the Property manager, must select and inspect the interior of:
  - all “down” units (i.e., units that cannot currently be rented in the normal course of business);
  - at least the minimum, but no more than the maximum, number of occupied and vacant units per Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocol; and
  - units where at least:
    - 50% are vacant (if existing); and
    - 2 are occupied.

- If substantial physical concerns exist, the inspector may inspect more than the maximum number of units per Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocol.

- If a Property has Non-Contiguous Parcels or scattered sites, on each parcel or site:
  - inspect all buildings;
  - allocate the number of units to inspect in the same proportion as the total Property units; and
  - randomly select the units to be inspected.

#### 502.06B Photos

**Operating Procedures**

You must submit at least the minimum number of photos per Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocol with the Property inspection form. The photos must include views...
and captions of the Property's
- signage,
- frontage,
- site office and clubhouse (if applicable),
- amenities,
- typical building front,
- apartment interior,
- major building systems,
- deferred maintenance and life safety items,
- extraordinary repair or capital expenditure items, and
- all critical or substantial issues per the inspection report.

502.06C Interviews

Operating Procedures

Except for walk-around inspections, you must interview the Property manager and other on-site staff to:

- ascertain the Property's condition and performance; and
- confirm all life safety and deferred maintenance items per the most recent Property inspection were corrected.

502.06D Market Analysis

Operating Procedures

You must evaluate:

- the Property's neighborhood, submarket, and market to determine material shifts in economic and real estate conditions; and
- competitive properties to determine any changes in the Property's competitive position since
  - initial underwriting, or
  - the most recent Property inspection.

502.06E Collateral Analysis
Operating Procedures

If the Property needs repairs or maintenance:

<table>
<thead>
<tr>
<th>Step</th>
<th>Activity</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Notify Borrower</td>
<td>• Within 45 days after the inspection date,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- identify the repair or maintenance issues,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- include any photos, and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- direct the Borrower to timely complete the work.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Use Form 4830 if the Property inspection rating is 3, 4, or 5.</td>
</tr>
<tr>
<td>2</td>
<td>Follow Up</td>
<td>• Follow up to ensure the Borrower responded and the work was successfully completed. If not:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- notify the Borrower;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- notify Multifamily Inspections; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- include your resolution recommendation.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Use Form 4831 or Form 4832 if the Property inspection rating is 3, 4, or 5.</td>
</tr>
<tr>
<td>3</td>
<td>Set Rating</td>
<td>Set the Property inspection overall rating to 4 (or 5 depending on the severity or other existing issues) if:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 10% or more of the units are down for any reason; or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• there is casualty damage equal to</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- 25% of the current UPB, or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- $1 million.</td>
</tr>
</tbody>
</table>

Guidance

Setting the Property inspection rating to 4 or 5 does not:

- add the Mortgage Loan to Fannie Mae’s Watchlist;
- require an Action Plan; or
- require Replacement Reserves reinstatement if the rating is the result of a casualty loss unless you
  - identify other performance issues that increase credit risk, or
  - expect insufficient funds or insurance proceeds to restore the Property.
to its original condition.

502.06F Life Safety Issues

☑ Requirements

If a third-party inspector identifies any Property issues that would be rated 3, 4, or 5 per the “Life Safety” section of the Fannie Mae Assessment Addendum of the MBA Standard Inspection Form, the inspector must notify you within 3 Business Days after completing the inspection.

502.07 Quality Control

502.07A Program

☑ Requirements

You must:

- Have a quality control program to annually review the Property inspections performed by third-party inspectors.
- Ensure every Property inspection complies with Fannie Mae’s requirements before submission.
- Show evidence and results of your quality control program if requested.

502.07B Inspection Form Retention

🌱 Operating Procedures

You must

- retain all Property inspection forms in your Servicing File for at least 2 inspection cycles, and
- submit them upon request.

502.07C Additional Inspections and Fees

➡ Guidance

Property inspections are a regular asset management responsibility, and additional Property inspections may be required if circumstances warrant. You may charge the Borrower a reasonable Property inspection fee if it is permitted per the Loan Documents or other written Borrower agreement.
Section 503  

Financial Analysis of Operations

503.01  Reporting

☑️ Requirements

You must submit quarterly and annual Financial Analysis of Operations reports (Form 4254 or Form 4254.Seniors) for each Property.

_substrates_ Operating Procedures

You must submit all Financial Analysis of Operations reports via the MAMP. To ensure the operating statements are complete:

<table>
<thead>
<tr>
<th>Item</th>
<th>Activity</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Verify</td>
<td>Verify the operating statements reflect the Property's actual physical occupancy based on the most recent quarter-end rent roll.</td>
</tr>
<tr>
<td>2</td>
<td>Provide</td>
<td>Provide actual expenses, normalizing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• for seasonal variations, and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• certain expenses including, but not limited to,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- real estate taxes,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- property casualty insurance,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Replacement Reserves, and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- property management fees.</td>
</tr>
<tr>
<td>Item</td>
<td>Activity</td>
<td>You must...</td>
</tr>
<tr>
<td>------</td>
<td>----------</td>
<td>-------------</td>
</tr>
<tr>
<td>3</td>
<td>Comment</td>
<td>Comment if:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• the Mortgage Loan is on Fannie Maes Watchlist; or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• there is a:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- greater than 20% variance from the same reporting period in the prior year for (per Form 4254.DEF)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Effective Gross Income,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• total operating expenses,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Gross Potential Rent,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• private pay,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Medicare/Medicaid,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• repairs and maintenance,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• utilities,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• water and sewer,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• real estate taxes, or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Property insurance;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- greater than 10% variance in physical occupancy from the immediately preceding reporting period;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- change in the Property's tax-exempt status;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- change in the required P&amp;I payments during a reporting period (e.g., interest-only to amortizing);</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- property management fee less than 3%; or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- relevant change in the Property's financial performance.</td>
</tr>
<tr>
<td>4</td>
<td>Resolve</td>
<td>Timely resolve any quality control issues.</td>
</tr>
</tbody>
</table>

**503.02 Quarterly Financial Analysis of Operations**

- **Requirements**
<table>
<thead>
<tr>
<th><strong>Fannie Mae Watchlist Status or Product</strong></th>
<th><strong>Reporting</strong></th>
</tr>
</thead>
</table>
| Fannie Mae Watchlist Property (All Products) | You must submit detailed quarterly operating statements  
  - 90 days after the end of the first quarter, and  
  - 75 days after the end of the second and third quarters. |
| Cooperative Property | No quarterly financial reporting or waiver required. |
| Small Mortgage Loan | If the original Mortgage Loan amount is:  
  - equal to $6 million or less, no quarterly financial reporting or waiver required; or  
  - greater than $6 million, you must submit detailed quarterly operating statements 75 days after the end of the second and third quarters. |
| Seniors Housing Property | You must submit detailed quarterly operating statements 75 days after the end of every quarter. |
| Credit Facility or Bulk Delivery Property | You must submit the Deal Level Structured Transaction (BD/CF) Quarterly report 75 days after the end of every quarter, including the  
  - detailed quarterly operating statements,  
  - Structured Facilities Monitoring Narrative (Form 4801), and  
  - Spreadsheet (Form 4802). |
| All Others | You must submit detailed quarterly operating statements 75 days after the end of the second and third quarters. |

**Operating Procedures**

You must adhere to the following due dates:
### Fannie Mae Watchlist Property

<table>
<thead>
<tr>
<th>Reporting Quarter</th>
<th>Period Covered</th>
<th>Reporting Due Date for Property with 12/31 Fiscal Year End</th>
<th>Reporting Due Date for Property with non-12/31 Fiscal Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>1st quarter</td>
<td>June 30</td>
<td>90 days after 1st quarter end</td>
</tr>
<tr>
<td>Second</td>
<td>2nd quarter year-to-date</td>
<td>September 15</td>
<td>75 days after 2nd quarter end</td>
</tr>
<tr>
<td>Third</td>
<td>3rd quarter year-to-date</td>
<td>December 15</td>
<td>75 days after 3rd quarter end</td>
</tr>
</tbody>
</table>

### Seniors Housing Property

<table>
<thead>
<tr>
<th>Reporting Quarter</th>
<th>Period Covered</th>
<th>Reporting Due Date for Property with 12/31 Fiscal Year End</th>
<th>Reporting Due Date for Property with non-12/31 Fiscal Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>Trailing 3 months operating data covering the 1st quarter</td>
<td>June 15</td>
<td>75 days after 1st quarter end</td>
</tr>
<tr>
<td>Second</td>
<td>Trailing 3 months operating data covering the 2nd quarter</td>
<td>September 15</td>
<td>75 days after 2nd quarter end</td>
</tr>
<tr>
<td>Third</td>
<td>Trailing 3 months operating data covering the 3rd quarter</td>
<td>December 15</td>
<td>75 days after 3rd quarter end</td>
</tr>
<tr>
<td>Fourth</td>
<td>Trailing 3 months operating data covering the 4th quarter</td>
<td>March 15</td>
<td>75 days after 4th quarter end</td>
</tr>
</tbody>
</table>
## Credit Facility or Bulk Delivery Property Reporting

<table>
<thead>
<tr>
<th>Reporting Quarter</th>
<th>Reporting Period</th>
<th>Reporting Due Date for Property with 12/31 Fiscal Year End</th>
<th>Reporting Due Date for Property with non-12/31 Fiscal Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>Trailing 3 months operating data:</td>
<td>June 15</td>
<td>75 days after 1st quarter end</td>
</tr>
<tr>
<td></td>
<td>• Property level statements covering the 1st quarter; and</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Deal level Structured Facilities Monitoring Narrative and Spreadsheet (Form 4801 and Form 4802).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second</td>
<td>Trailing 3 months operating data:</td>
<td>September 15</td>
<td>75 days after 2nd quarter end</td>
</tr>
<tr>
<td></td>
<td>• Property level statements covering the 2nd quarter; and</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Deal level Structured Facilities Monitoring Narrative and Spreadsheet (Form 4801 and Form 4802).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Third</td>
<td>Trailing 3 months operating data:</td>
<td>December 15</td>
<td>75 days after 3rd quarter end</td>
</tr>
<tr>
<td></td>
<td>• Property level statements covering the 3rd quarter; and</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Deal level Structured Facilities Monitoring Narrative and Spreadsheet (Form 4801 and Form 4802).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Credit Facility or Bulk Delivery Property

<table>
<thead>
<tr>
<th>Reporting Quarter</th>
<th>Period Covered</th>
<th>Reporting Due Date for Property with 12/31 Fiscal Year End</th>
<th>Reporting Due Date for Property with non-12/31 Fiscal Year End</th>
</tr>
</thead>
</table>
| Fourth            | Trailing 3 months operating data:  
  - Property level statements covering the 4th quarter; and  
  - Deal level Structured Facilities Monitoring Narrative and Spreadsheet (Form 4801 and Form 4802). | March 15 | 75 days after 4th quarter end |

### All Others

<table>
<thead>
<tr>
<th>Reporting Quarter</th>
<th>Period Covered</th>
<th>Reporting Due Date for Property with 12/31 Fiscal Year End</th>
<th>Reporting Due Date for Property with non-12/31 Fiscal Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>Second</td>
<td>2nd quarter year-to-date</td>
<td>September 15</td>
<td>75 days after 2nd quarter end</td>
</tr>
<tr>
<td>Third</td>
<td>3rd quarter year-to-date</td>
<td>December 15</td>
<td>75 days after 3rd quarter end</td>
</tr>
</tbody>
</table>

**Guidance**

If any due date is not a Business Day, you may submit the quarterly Financial Analysis of Operations on the next Business Day.

### 503.03 Annual Financial Analysis of Operations

#### 503.03A Reporting Period

- **Requirements**

  The annual Financial Analysis of Operations (Form 4254 or Form 4254.Seniors) for each Property must cover the
previous calendar year for a Property with a 12/31 fiscal year end, or
fiscal year ending in the previous calendar year for a Property with a
non-12/31 fiscal year end.

503.03B Submission

Operating Procedures

2. Analyze the Borrower's operating statements per Form 4254.DEF.
3. Indicate on each statement line which of the Borrower's income and
   expense items are included.
4. Provide the pertinent income, expense, and other required data for the
current reporting period in the MAMP.

<table>
<thead>
<tr>
<th>Annual Reporting Protocol</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>For...</strong></td>
</tr>
<tr>
<td><strong>First Year</strong></td>
</tr>
<tr>
<td>A Mortgage Loan</td>
</tr>
<tr>
<td>Fannie Mae purchases on</td>
</tr>
<tr>
<td>or before June 30</td>
</tr>
<tr>
<td>A Mortgage Loan</td>
</tr>
<tr>
<td>Fannie Mae purchases on</td>
</tr>
<tr>
<td>or after July 1</td>
</tr>
<tr>
<td><strong>Subsequent Years</strong></td>
</tr>
</tbody>
</table>
| Every Property           | • June 1 for a Property with a 12/31 fiscal year end, or  
                          | • for a Property with a non-12/31 fiscal year end:  
                          | - within 150 days after the fiscal year-end; and  
                          | - submit a data change request via the MAMP to change the Borrower's fiscal year end.  |  
|                          | Submit 12 months of actual operating data. |                                          |
503.03C  Annual Review

Operating Procedures

Within 15 Business Days after Fannie Mae notifies you of a Mortgage Loan review, you must submit:

- the Borrower's operating statements, with each income and expense line item indicated per Form 4254.DEF;
- the Borrower's escrow activity reconciliation; and
- any other requested documentation.

503.04  Waiver Request

Operating Procedures

<table>
<thead>
<tr>
<th>Waiver Reason</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unresponsive Borrower</td>
<td>• Request the Borrower provide the missing statements.</td>
</tr>
<tr>
<td></td>
<td>• If the Borrower does not respond after 3 written requests, wait to submit a waiver request via the MAMP until:</td>
</tr>
<tr>
<td></td>
<td>- for an annual report, 6 months after the due date; or</td>
</tr>
<tr>
<td></td>
<td>- for a quarterly report, the next due date.</td>
</tr>
<tr>
<td></td>
<td>• Include Unresponsive Borrower as the waiver condition in the MAMP.</td>
</tr>
<tr>
<td></td>
<td>• Provide copies of all relevant Borrower correspondence.</td>
</tr>
<tr>
<td></td>
<td>• Provide any additional requested information.</td>
</tr>
</tbody>
</table>
### Waiver Reason

<table>
<thead>
<tr>
<th>All Others</th>
<th>Submit a waiver request via the MAMP if:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Your Lender Contract does not require collecting Property operating statements.</td>
</tr>
<tr>
<td></td>
<td>• The Mortgage Loan Documents do not permit you to collect, nor require the Borrower to submit, financial reports.</td>
</tr>
<tr>
<td></td>
<td>• The Mortgage Loan:</td>
</tr>
<tr>
<td></td>
<td>- liquidated in the current quarter (for quarterly reporting waivers), or year (for annual reporting waivers), before the Financial Analysis of Operations submission due date;</td>
</tr>
<tr>
<td></td>
<td>- was delivered per a Forward Commitment and has not yet converted to a permanent loan;</td>
</tr>
<tr>
<td></td>
<td>- was defeased;</td>
</tr>
<tr>
<td></td>
<td>- has FHA or HUD risk sharing;</td>
</tr>
<tr>
<td></td>
<td>- is managed by Fannie Mae's Special Asset Management; or</td>
</tr>
<tr>
<td></td>
<td>- was acquired by Fannie Mae in the current reporting year, and less than 6 months of Property operating data is available.</td>
</tr>
</tbody>
</table>

If you receive operating statements after a waiver was granted, you must promptly submit the Financial Analysis of Operations report (Form 4254 or Form 4254.Seniors).

### Section 504

#### Loan Agreement Compliance

**504.01 Generally**

- [Requirements](#)

  For all Mortgage Loans, you must

  - review all required Borrower or Guarantor information, and
  - confirm compliance with the quarterly and annual reporting requirements per the Loan Documents.

- [Guidance](#)

  You may use the Annual Loan Agreement Certification (Form 6620 series)
504.02 Financial Reports and Information

504.02A Borrower and Guarantor Notices

Operating Procedures

You:

- Will receive an annual list of all Mortgage Loans requiring Guarantor financial records for the past fiscal year.
- Must send the Borrower and Guarantors a list of all required financial reports.
- Must provide the Borrower and Guarantors sufficient time for you to submit certified financial reports:
  - for Borrowers,
    - within 45 days after the end of each fiscal quarter, and
    - 120 days after the end of each fiscal year; and
  - for Guarantors, by June 1.
- Must use best efforts to obtain all required reports.
- Must promptly submit all Guarantor financial reports received per Part V, Chapter 5: Surveillance, Section 504.02C: Review Financial Reporting.

504.02B Borrower Fails to Provide Guarantor Financial Reports

Operating Procedures

You must immediately notify Fannie Mae and the Borrower or Guarantor if:

- the Borrower fails to submit the required Guarantor financial reports and information by the date required per the Loan Documents;
- the Guarantor fails to certify each financial report is true, complete, and accurate in all material respects; or
- you believe any financial report or information is materially inaccurate or misleading.

You must provide:

- the Borrower or Guarantor 30 days to deliver/certify all required financial
Fannie Mae copies of all related correspondence with the Borrower or any Guarantor.

<table>
<thead>
<tr>
<th>If the Borrower or a Guarantor...</th>
<th>You...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fails to:</td>
<td>Must request a waiver through:</td>
</tr>
<tr>
<td>• timely submit all required information; or</td>
<td>• the MAMP for financials required from the Borrower; or</td>
</tr>
<tr>
<td>• respond to at least 3 written notices.</td>
<td>• Sponsor Financials for financials required from the Guarantors.</td>
</tr>
<tr>
<td>Is diligently attempting to deliver all required information.</td>
<td>May extend the 30-day period by an additional 30 days.</td>
</tr>
</tbody>
</table>

504.02C  Review Financial Reporting

Operating Procedures

After reviewing the Borrower or Guarantor information:

<table>
<thead>
<tr>
<th>If you determine...</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>No additional follow up is required</td>
<td>• Submit the certified material through:</td>
</tr>
<tr>
<td></td>
<td>- the MAMP for the Borrower; and</td>
</tr>
<tr>
<td></td>
<td>- Sponsor Financials for Guarantors.</td>
</tr>
<tr>
<td></td>
<td>• Retain the information in your Servicing File.</td>
</tr>
<tr>
<td>Additional or supporting information is required</td>
<td>• Promptly:</td>
</tr>
<tr>
<td></td>
<td>- contact the Borrower or Guarantor to request additional information; and</td>
</tr>
<tr>
<td></td>
<td>- submit a copy of all financial reporting, explanatory schedules, and other supporting information through</td>
</tr>
<tr>
<td></td>
<td>• the MAMP for the Borrower, and</td>
</tr>
<tr>
<td></td>
<td>• Sponsor Financials for Guarantors.</td>
</tr>
<tr>
<td></td>
<td>• Retain the information in your Servicing File.</td>
</tr>
</tbody>
</table>
**504.02D** Records

- **Requirements**

For the Mortgage Loan term, your Servicing File must include the originals of the following Borrower and Guarantor information:

- financial records;
- certifications and certified material; and
- related information and explanatory schedules.

---

**Section 505** Compliance

- **Requirements**

You must:

- maintain effective OFAC compliance procedures;
- monthly screen:
  - the Borrower, Key Principal, Guarantor, and Principals for Potential Red Flags for Mortgage Fraud and Other Suspicious Activity; and
  - all Persons per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance; and
- report:
  - all unresolved red flags per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance; and
  - within 24 hours, any Blocked Person to Lender Assessment Oversight.
Chapter 6  Watchlist Management

Section 601  Servicer Watchlist

601.01 Submission

☑️ Requirements

You must:

- Maintain a Servicer Watchlist for your Portfolio Mortgage Loans that
  - reflects your loan rating methodology, and
  - identifies Mortgage Loans with heightened credit risk.
- Submit your Servicer Watchlist for all
  - Primary Risk Mortgage Loans, and
  - Secondary Risk Mortgage Loans.

 viewController

Operating Procedures

Submit your Servicer Watchlist:

- using the CSV upload template located under “Guides and Templates” in
  the MAMP; and
- within 45 days after each calendar quarter end, but no later than the due
date shown in the MAMP.

For each Mortgage Loan, you must:

- Respond “Yes” or “No” to the following 2 questions:
  - Will the Borrower likely not be able to make timely debt service
    payments?
  - Will the Borrower likely not meet the contractual obligations to timely
    pay off the Mortgage Loan UPB?

- Explain
  - why it is being reported, and
  - the rationale for its rating.
- Describe the current status of the issues.
**Requirements**

If a Mortgage Loan has heightened credit risk, you must:

- act to mitigate the risk of loss or default;
- explain the nature and severity of the issues; and
- contact Fannie Mae:

<table>
<thead>
<tr>
<th>Contact</th>
<th>For...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Watchlist Management</td>
<td>Primary Risk Mortgage Loans with deteriorating Property performance near or below breakeven.</td>
</tr>
<tr>
<td>Top Loss</td>
<td>Secondary Risk Mortgage Loans with deteriorating Property performance near or below breakeven.</td>
</tr>
<tr>
<td>Special Credits</td>
<td>Property condition concerns per</td>
</tr>
<tr>
<td></td>
<td>• Part V, Chapter 5: Surveillance, Section 502.02: Property Condition Concerns, and</td>
</tr>
<tr>
<td></td>
<td>• Part V, Chapter 5: Surveillance, Section 502.06E: Collateral Analysis.</td>
</tr>
<tr>
<td>Special Asset Management</td>
<td>Monetary default.</td>
</tr>
<tr>
<td>Maturity Management</td>
<td>Mortgage Loans maturing within the next 24 months.</td>
</tr>
</tbody>
</table>

**Operating Procedures**

Your mitigating actions must include 1 or more of the following:

- monitoring the Property (and any other collateral)
  - management and operations, and
  - physical condition (e.g., more frequent inspections);

- implementing or enforcing Loan Document provisions such as
  - rescinding Loan Document waivers, or
  - reinstating Replacement Reserve funding; and
communicating with all appropriate parties (e.g., Borrower, Key Principals, Sponsor, and Property manager).

Section 602  Fannie Mae's Watchlist

Guidance

Fannie Mae’s Watchlist identifies Mortgage Loans with increased credit risk based on Fannie Mae’s proprietary rating system, and Risk Rating Classifications.

Requirements

You must regularly monitor Fannie Mae’s Watchlist for your Mortgage Loans in the MAMP’s “My Portfolio” module.

Section 603  Action Plans

603.01  Primary Risk Mortgage Loans

Requirements

You must submit an Action Plan for any Primary Risk Mortgage Loan identified as a Substandard Asset on Fannie Mae’s Watchlist, and with an Action Plan work item in the MAMP.

The Action Plan must explain

- all areas of concern,
- the Sponsor’s strategy and timing,
- your actions to resolve the issues, and
- any results.

Operating Procedures

For a Small Mortgage Loan, do not create an Action Plan unless Fannie Mae requires it.

For each Action Plan:
Review the MAMP module.

Review the Action Plan Submission Process Guide under "Guides and Templates" in the MAMP.

Create a new one or update an existing one twice a year to:

- document material changes and/or updates since the previous Action Plan;
- identify causes of the issues and additional actions you and the Borrower took;
- explain how the actions will reduce or mitigate risk and loss; and
- report the results of previous actions.

Use the prescribed format to submit it in the MAMP by the “Submission Due Date”.

603.02 Secondary Risk Mortgage Loans

Guidance

For a Secondary Risk Mortgage Loan on your Servicer Watchlist, Fannie Mae may request additional information, including an Action Plan.

Requirements

You must provide all information and Action Plans within 5 Business Days after Fannie Mae’s request.

603.03 Defaulted Mortgage Loans

Requirements

For any defaulted Mortgage Loan, until servicing is transferred to a Special Servicer, you must continue taking all actions

- noted in the Action Plan, or
- otherwise communicated to Fannie Mae.

Guidance

For your defaulted Mortgage Loan obligations, see Part V, Chapter 7: Non-Performing Mortgage Loans.
Section 604  Servicer Fees

☑ Requirements

For any workout, modification, or reinstatement of a Mortgage Loan on your Servicer Watchlist or Fannie Mae’s Watchlist, without Fannie Mae’s prior written approval, you must not

- charge the Borrower any fee for your own account, or
- ask the Borrower to reimburse you for any costs or expenses.

Section 605  Fannie Mae Contractors

☑ Requirements

You must interact with any Fannie Mae contractor engaged to provide asset management or other services as you would with Fannie Mae directly.
Chapter 7  Non-Performing Mortgage Loans

Section 701  Generally

This Chapter sets forth the policies, procedures and standards for servicing Non-Performing Mortgage Loans through the default resolution process. The provisions of this Chapter apply, unless otherwise noted, to both Secondary Risk Mortgage Loans and Primary Risk Mortgage Loans.

Fannie Mae requires that, at a minimum, each Servicer offer the same standard of care to its Fannie Mae portfolio as it would its own portfolio. Subject to this Chapter, the Servicer must aggressively pursue collection of all amounts due from Borrowers under the Loan Documents to minimize losses. To that end, this Chapter sets forth the roles, duties and responsibilities of the various groups within Fannie Mae, the Servicer, and, if applicable, the Special Servicer charged with resolving delinquencies and defaults in the most efficient and expeditious manner.

The party performing the loss mitigation actions, as outlined in this Chapter 7, is referred to as the "Special Servicer". The Special Servicer will either be the Lender, Fannie Mae, or a contract Special Servicer for the Lender or Fannie Mae, as permitted by this Guide. In this Chapter, any reference to the respective rights or duties of the Lender or Fannie Mae, as the Special Servicer, shall also apply to any approved contract Special Servicer for the Lender or Fannie Mae; however, it is the Lender's responsibility to ensure that any actions taken in its behalf by a contract Special Servicer fully comply with the requirements of this Guide.

The requirements set forth in this Chapter represent only the minimum requirements that Fannie Mae expects from the Servicer. Unusual circumstances may require the Servicer to perform additional servicing duties as directed by Fannie Mae. Fannie Mae requires a high standard of delinquent Mortgage Loan servicing. Failure to service in accordance with that standard may result in Fannie Mae's exercise of its remedies as set forth in the Guide and the Lender's Contract.

In the event of a conflict between this Chapter, the Lenders Contract, the Transaction Documents, and the Loan Documents, the following is the order of priority regarding governing provisions: (1)Loan Documents, (2)Transaction Documents, (3)Lenders Contract, and (4)this Chapter. To the extent not in contradiction with the Loan Documents, the Lenders Contract or the Transaction Documents, the requirements of this Chapter must be satisfied.

Section 702  Secondary Risk Mortgage Loans and Primary Risk Mortgage Loans
702.01 Generally

For certain Lenders, the Lender’s Contract with Fannie Mae will specify which party has all of the risk of loss on the Mortgage Loan, or if the Lender and Fannie Mae share the loss. In some Lender Contracts, the Mortgage Loans may be Secondary Risk until the Lender’s recourse obligation is deemed exhausted after which the Mortgage Loans will become Primary Risk.

702.02 Secondary Risk Mortgage Loans

702.02A Definition

A Mortgage Loan is considered a Secondary Risk Mortgage Loan when all losses incurred on such Mortgage Loan are contractually borne by the Lender until the Lender’s specified recourse obligation is deemed exhausted. This obligation to bear all losses is sometimes referred to as a "Top Loss" obligation. Because Secondary Risk Mortgage Loans will convert to Primary Risk Mortgage Loans upon the deemed exhaustion of the Lender’s obligation, Fannie Mae and the Servicer must work together to accurately track amounts for any losses that may have occurred.

702.02B Lender is Special Servicer

For all Secondary Risk Mortgage Loans, the Lender, or its approved contract servicer, will be the Special Servicer. The Special Servicer will be required to submit to Fannie Mae a Servicer Workout Action Template (“SWAT”) (Form 4810) for all Secondary Risk Mortgage Loans as more particularly provided in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 708.02: Servicer Workout Action Template (“SWAT”).

702.02C Deemed Exhaustion of Recourse Obligation

When the cumulative approved realized losses plus Potential Losses under a Secondary Risk Lender Contract equal or exceed 90% of the Lender’s recourse obligation under that Contract, the Lender’s recourse obligation under the Contract will be deemed to be exhausted and the remaining Mortgage Loans serviced under that Contract will be deemed to be Primary Risk Mortgage Loans. Fannie Mae will provide notice in writing to the Servicer at the time of such re-designation. Re-designation of a Mortgage Loan from Secondary Risk to Primary Risk does not relieve the Lender of its remaining recourse obligation.

Fannie Mae’s estimate of Potential Losses will be calculated as follows:

- the value of each Property (as provided below) securing all then-delinquent Mortgage Loans, less
the UPB of all then-delinquent Mortgage Loans, plus

estimated expenses to pursue a foreclosure Course of Action for all then-delinquent Mortgage Loans.

The value of the Property shall be calculated as follows:

- 90% of the Property value of each Property securing each such delinquent Mortgage Loan if the value is established by an appraisal or broker’s opinion of value dated six (6) months or less prior to incurring the Potential Loss, or

- 60% of the most recent Property value of each Property securing each such delinquent Mortgage Loan if the value is established by an appraisal or broker’s opinion of value dated more than six (6) months prior to incurring the Potential Loss.

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### 702.03 Primary Risk Mortgage Loans Defined

#### 702.03A Definition

A Mortgage Loan is considered a Primary Risk Mortgage Loan when Fannie Mae bears all losses on the Mortgage Loan or when the Lender and Fannie Mae share the losses on the Mortgage Loan. All Mortgage Loans delivered under the DUS and Aggregation product lines and certain other Mortgage Loans where Fannie Mae either bears all the risk of loss or shares in a portion of the risk of loss are Primary Risk Mortgage Loans.

#### 702.03B Fannie Mae is Special Servicer

For all Primary Risk Mortgage Loans, Fannie Mae, or its contract servicer, will be the Special Servicer.

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### Section 703 Mortgage Loan Defaults

#### 703.01 Anticipatory Defaults

When a Borrower indicates to the Servicer that it is no longer willing or able to continue to make its debt service or other payment obligations as required by the Loan Documents or to perform acts that are required by the Loan Documents, the Servicer must notify its Fannie Mae Representative immediately. The Servicer and Fannie Mae will determine whether such future non-performance is inevitable and whether to treat such a potential breach as immediate and, if repudiatory, to seek immediate relief.

#### 703.02 Performance Defaults
703.02A  Failure of Borrower to Perform

The Loan Documents will provide acts of the Borrower that are required to be performed, the failure of which may be designated as an event of default. There may be grace periods for curing such a default. The Servicer must provide written notice of the default to Fannie Mae and to the Borrower as required in the Loan Documents. The Servicer must diligently pursue the Borrower’s cure thereof within the time provided in the Loan Documents to effect such a cure, a Performance Default has occurred. Depending on the severity of the Performance Default, Fannie Mae may permit the Servicer to monitor the default per Part V, Chapter 7: Non-Performing Mortgage Loans, Section 703.02C: Lender Tenders for Minor or Immaterial Defaults.

703.02B  Service of Process

Often, the Lender, Servicer, or Fannie Mae become aware of a Performance Default through receipt of a complaint, petition, or similar legal document in connection with a lawsuit. While the Servicer has the duty to provide notices of default to the Borrower, neither the Lender nor the Servicer is authorized to accept service of process on behalf of Fannie Mae. Fannie Mae's Legal Department in Washington, DC must accept service of process for Fannie Mae related to any Mortgage Loan or Property.

703.02C  Lender Tenders for Minor or Immaterial Defaults

1. Primary Risk Mortgage Loans

In some instances, for minor or relatively immaterial defaults (like materialmen and mechanics' liens) on Primary Risk Mortgage Loans, Fannie Mae will elect to tender the Performance Default to the Servicer to monitor, engage legal counsel as necessary, and otherwise protect Fannie Mae's security interest in the Property. These "Lender Tenders" will be monitored and special serviced by the Servicer using its customary standard of care for similar Performance Defaults in its own portfolio.

2. Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, all of the monitoring and special servicing activities for minor or relatively immaterial defaults will be performed by the Servicer.

3. Lender Tenders Not Subject to Requirements of this Chapter

Lender Tenders are not subject to the terms of this Chapter.

703.03  Monetary or Payment Defaults
Payments under the Note evidencing the Mortgage Loan are due on the first day of the month or such other date as may be specified in the Note. Typically, there is no grace period for making payments and payments made after the scheduled due date are past due even if late charges do not attach until some days later. If the Borrower fails to pay monies when due, whether the obligation arises under the Note or other Loan Document, a Monetary or Payment Default has occurred.

703.04 Date of Default

703.04A Definition of Date of Default

The Date of Default is the date of the initial Payment Default or Performance Default.

703.04B Definition of Non-Performing Mortgage Loan

After the Date of Default and until the default is cured, the Mortgage Loan is considered a "Non-Performing Mortgage Loan."

703.04C Partial Payments by Borrower Do Not Change Date of Default

For purposes of computing the time period for initiating the Dual Track Approach and electing a Course of Action as described in this Chapter, partial payments made by the Borrower for monies due under the Note or other Loan Document does not advance forward the Date of Default. The last paid installment ("LPI") is the accounting term for indicating the due date of the last payment received. Partial payments may be received over time that advance the LPI date, but the Date of Default of the initial Payment Default or Performance Default will not change.

Per Part V, Chapter 7: Non-Performing Mortgage Loans, Section 704.02: Partial Payments; Late Payments, before the Servicer is permitted to apply any partial payment to advance the LPI date, the Servicer must first obtain direction from Fannie Mae Special Asset Management. Fannie Mae may, at its option, require the Servicer to hold all such partial payments in suspense and not advance the LPI date until the Borrower has paid all amounts necessary to cure all Payment Defaults.

703.05 Late Charges and Default Interest

703.05A Timing for Imposition of Late Charges and Default Interest

The imposition of late charges and default interest must be made in accordance with the amounts and at such time as specified in the Note or other Loan Document.

703.05B Late Charges and Default Interest
1. Late Charges

Unless otherwise provided in the Lender Contract, all late charges are wholly retained by the Servicer. Any decision to waive the collection of late charges payable to the Servicer rests with the Servicer.

2. Default Interest

Unless the Lender’s Contract specifies otherwise, so long as the Servicer is making Delinquency Advances, the Servicer is entitled to retain that portion of the Mortgage Loan interest rate charged to the Borrower that is attributable to the default and intended to be added to the stated Mortgage Loan interest rate. If the Servicer is not making Delinquency Advances, no amount of the default interest component may be retained by the Servicer. Without regard to whether the Servicer is making Delinquency Advances, Fannie Mae is always entitled to the interest that accrues at the stated Mortgage Loan interest rate.

703.05C No Deduction for Late Charges or Default Interest

Late charges and default interest may not be deducted by the Servicer from the Borrower's P&I payments, T&I deposits, or Collateral Agreement deposits.

703.05D Enforceability of Late Charges and Default Interest

The enforceability of late charges and default interest may depend on the law in the Property jurisdiction. The Servicer must determine, based on the facts and circumstances of any transaction and their legal counsel's advice, whether any such charges are enforceable in the Property jurisdiction prior to making demand.

Section 704 Notice of Default; Reservation of Rights

704.01 Notice of Default

704.01A Notice to Fannie Mae of Payment Default

Using the Multifamily Delinquency System, the Servicer must advise Fannie Mae of a Payment Default or a Performance Default on or before the 17th day of the month (or on the next Business Day if the 17th is not a Business Day) in which the Payment Default occurs or is discovered.

704.01B Notice to Fannie Mae of Performance Default

By written notice to its Fannie Mae Representative (Multifamily Loss Mitigation for Primary Risk Mortgage Loans, and Maturity Management Top Loss for Secondary Risk Mortgage Loans), the Servicer must advise Fannie Mae of certain Performance Defaults as provided in this Section.
Notice of a Performance Default must be given to Fannie Mae:

- within five (5) days after the Servicer becomes aware of the Performance Default; or
- if the Loan Documents permit a cure period after the Borrower receives written notice of its default or failure to perform any act under the Loan Documents, then within five (5) days after the Borrower’s cure period has expired and a Performance Default has occurred. The Servicer shall provide any such notice of the Performance Default to the Borrower per Part V, Chapter 7: Non-Performing Mortgage Loans, Section 703.02: Performance Defaults.

If the Borrower’s default or failure to perform any act under the Loan Documents has been excused by a waiver given by the Servicer (if permitted pursuant to this Guide) or by Fannie Mae, such default or non-performance is not considered a Performance Default.

After having given Fannie Mae notice of a Performance Default, the Servicer should provide updates at least monthly to its Fannie Mae Representative, to advise of status of the default and the steps being taken by the borrower to cure the Performance Default.

704.01C Types of Performance Defaults

The following Performance Defaults must be reported by the Servicer, as provided in this Section; however, to the extent the Servicer believes that a Performance Default not listed below is material to the Borrower’s ability to perform under the Mortgage Loan, or the value of the Mortgage Loan or the Property, the Servicer should report that Performance Default as well:

1. Unauthorized Transfers

To the extent not approved in accordance with Part V, Chapter 4: Asset Management: Loan Document Administration, Section 418: Credit Enhancement Mortgage Loans and Multifamily Affordable Housing Properties, any transfers identified as a Transfer/Assumption in Part V, Chapter 4: Asset Management: Loan Document Administration, Section 418: Credit Enhancement Mortgage Loans and Multifamily Affordable Housing Properties, unless such type of transfer is permitted under the applicable Loan Agreement or Security Instrument for the Mortgage Loan.

2. Completion/Repair Defaults

The Borrower’s failure to complete required repairs in the aggregate in excess of the lesser of $50,000 or 10% of current UPB under a Loan Agreement, a Completion/Repair Agreement, a Replacement Reserve...
and Security Agreement, or any other Loan Document or agreement binding upon the Borrower.

3. Mechanics’, Materialman’s or Judgment Liens

The Borrower’s failure to release or bond off a mechanics’, materialman’s or judgment lien that has been filed against the Property.

4. Failure to Maintain Insurance

The Borrower’s failure to maintain all insurance coverages as required by Part II, Chapter 5: Property and Liability Insurance and the applicable Loan Agreement or Security Instrument for the Mortgage Loan.

5. Failure to Maintain the Property

The Borrower’s failure to maintain the Property as required by the applicable Loan Agreement or Security Instrument for the Mortgage Loan, as evidenced by outstanding code violations or municipal code enforcement actions pending against the Property for immediately hazardous conditions (such as inadequate fire exits, rodents, lead-based paint, lack of heat, hot water, electricity, or gas, etc.), uninhabitable units on the Property, the failure to promptly make repairs to the Property following a casualty loss, demolition of Improvements on the Property, or waste or abandonment of the Property or its Improvements. For purposes of reporting under Part V, Chapter 7: Non-Performing Mortgage Loans, Section 704.01: Notice of Default, “uninhabitable units” do not include a unit where a tenant has vacated and the unit is being made ready, so long as the Borrower is promptly addressing the condition of the vacated unit and in the process of making it ready for leasing.

6. Change in Use

The Borrower’s alteration of the Property or change in use, unit mix or other characteristics of the Property, or converting any individual dwelling unit to commercial use, or initiating or acquiescing to a change in the zoning classification of the Property, or establishing any condominium or cooperative regime with respect to the Property, or subdividing the Property, without Fannie Mae approval as required by the Loan Documents.

7. Environmental Conditions

The Borrower’s failure to comply with its Operations and Maintenance (“O&M”) Agreement for the Property, or the existence of any environmentally hazardous materials that would constitute a Prohibited Activity or Condition under the Loan Agreement, Security Instrument, or other Loan Documents.

8. Noncompliance with Laws

Any violation of laws, ordinances or regulations by the Borrower and/or the Property, as required by Part V, Chapter 3: Custodial Accounts, Section 301.04: Investments and Interest.
9. Other Default Reporting

Any other required default reporting.

704.01D  Contact with Borrower

The Servicer must contact the Borrower as provided in this Chapter to determine why the payment has not been made and whether the payment will be made before the end of the month. The Servicer must continue to update the Multifamily Delinquency System on its discussions with the Borrower until the Mortgage Loan has been transferred to the Special Servicer (either Fannie Mae for Primary Risk Mortgage Loans, or the Servicer's special servicing area for Secondary Risk Mortgage Loans).

704.01E  Pre-Negotiation Letter

1. Execution

Prior to entering into any discussions with a Borrower regarding an anticipatory default (per Part V, Chapter 7: Non-Performing Mortgage Loans, Section 703.01: Anticipatory Defaults) or after the Mortgage Loan has been transferred to the Special Servicer and prior to any further discussions with the Borrower regarding the Non-Performing Mortgage Loan and possible resolution of the default, the Borrower, Fannie Mae (if a Primary Risk Mortgage Loan), the Servicer (if a Secondary Risk Mortgage Loan) or the Lender (if the Lender has loss sharing and is not also the Servicer) must execute and send to the Borrower a written Pre-Negotiation Form Letter (NOI and Loan Document Provisions) (Form 4811) or Pre-Negotiation Form Letter (Form 4812).

2. Purpose of Pre-Negotiation Letter

The purpose of the Pre-Negotiation Letter is for all parties to acknowledge in writing that any discussions relating to resolution of the default are not binding on any party until the discussions are documented in a written agreement executed by all parties. Use of the Pre-Negotiation Letter minimizes the risk of a liability claim against Fannie Mae or the Servicer that the Borrower acted in reliance on a verbal representation by Fannie Mae or the Servicer.

704.02  Partial Payments; Late Payments

704.02A  Partial Payments

If the Borrower makes a partial payment, within five (5) business days after receipt of the partial payment the Servicer must send a letter to the Borrower, under the Servicer’s letterhead, the Multifamily Partial Payment Letter – Fees (Optional) Assessed (Form 4806).
**704.02B Late Partial Payment**

If the Borrower makes a late and partial payment, within five (5) business days after receipt of the late and partial payment the Servicer must send to the Borrower, under the Servicer’s letterhead, the Multifamily Partial Payment Letter – Fees (Optional) Assessed (Form 4806).

**704.02C Full Payment After Expiration of Period Before Assessing Late Charges**

If the Borrower makes a full payment after the date late charges are assessed, upon receipt of such payment the Servicer must send within five (5) business days the Borrower, under its letterhead, the Multifamily Late Payment Letter – Fees (Optional) Assessed (Form 4805).

If the amount of the payment received from the Borrower is not sufficient to cure all Monetary Defaults, the Servicer shall obtain direction from Fannie Mae Special Asset Management prior to applying the amount to past-due payments and advancing the LPI date. Fannie Mae may, at its option, require the Servicer to hold any such payments received in suspense until the Borrower has paid all amounts necessary to cure all Monetary Defaults.

**704.02D Application of Partial Payments**

If the amount of the payment received from the Borrower is not sufficient to cure all Monetary Defaults, the Servicer shall obtain direction from Fannie Mae Special Asset Management prior to applying the amount to past-due payments and advancing the LPI date. Fannie Mae may, at its option, require the Servicer to hold any such payments received in suspense until the Borrower has paid all amounts necessary to cure all Monetary Defaults.

**704.02E Failure to Make Any Payment**

If the Borrower fails to make any payment at all, within five (5) business days following the date late charges are incurred the Servicer must send to the Borrower, under the Servicer’s letterhead, the Multifamily No Payment Received Letter – Fees (Optional) Assessed (Form 4807).

**704.02F Copies of Letters Sent to Borrower; Correspondence with Borrower**

The Servicer must send to its Fannie Mae Representative a copy of any letter sent to the Borrower pursuant to this Chapter at the same time as it sends such letter to the Borrower. After outside counsel is engaged, any correspondence with the Borrower related to the Payment Default or Performance Default, or the Course of Action, must be made by or through the outside counsel.
Section 705  
Capital Repairs and Protection of Property and Property Income

705.01  
Funding Capital Repairs During Default Resolution

705.01A  
Generally

It is not unusual for a Property securing a Non-Performing Mortgage Loan to be in need of repairs during the default resolution process. Generally, a Payment Default or a Performance Default will result in a default under the Collateral Agreements for Replacement Reserves, Operating Deficit, Completion/Repairs, or other Collateral Agreements. When the Borrower is in default under a Collateral Agreement, the Special Servicer has discretion in applying the reserves or Letter of Credit proceeds either to repairs or replacements or to the payment of amounts due and owing to Fannie Mae under the Loan Documents.

1. Primary Risk Mortgage Loans

As part of its Asset Review for Primary Risk Mortgage Loans, as provided in this Chapter, the Servicer must advise Fannie Mae Special Asset Management of the type of repairs or replacements that are necessary and recommend whether the repairs should be funded from the Collateral Agreement funds. It is Fannie Mae's decision whether or not to accept the recommendation and use the funds for repairs or replacements for Primary Risk Mortgage Loans.

2. Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, the Lender must provide a SWAT describing the actions it intends to take to ensure the repair of the Property and to prevent further Property deterioration. The decision whether or not to use Collateral Agreement funds for repairs or replacements is the Special Servicer's. When making the decision whether to use the Collateral Agreement funds for repairs or replacements, the level of cooperation from the Borrower and remitting the monthly net operating income must be a factor to consider.

705.01B  
Health and Safety Repairs

If in inspecting the Property securing the Non-Performing Mortgage Loan, it is apparent that the Borrower is not making repairs related to the health and safety of the tenants or is allowing the physical condition of the Property to deteriorate, then:

- for Primary Risk Mortgage Loans, the Servicer must immediately notify Fannie Mae Special Asset Management and, if the Mortgage Loan has been transferred to Fannie Mae Special Asset Management for special servicing, Fannie Mae may elect to engage outside counsel to pursue the court
appointment of a receiver, as well as enforce other rights and remedies; or

- for Secondary Risk Mortgage Loans, the Lender must provide a SWAT describing the actions it intends to take to ensure the repair of the Property and to prevent further Property deterioration.

THE SERVICER MUST NOT ATTEMPT TO MAKE THE REPAIRS, HIRE CONTRACTORS TO MAKE THE REPAIRS, OR OTHERWISE TAKE ANY ACTION THAT COULD RESULT IN A MORTGAGEE-IN-POSSESSION STATUS.

705.02 Protection of Property Income

For all Non-Performing Mortgage Loans, if the Borrower is not accounting for and paying to the Servicer the monthly net operating income from the Property after the Date of Default, then:

- for all Primary Risk Mortgage Loans the Servicer must notify Fannie Mae Special Asset Management as part of the Asset Review or otherwise; or

- for all Secondary Risk Mortgage Loans, the Special Servicer must provide in the SWAT the actions it intends to take to obtain control of the net operating income.

705.03 Property Management Changes

705.03A Primary Risk Mortgage Loans

For Primary Risk Mortgage Loans, any proposed changes in the property management for Property securing a Non-Performing Mortgage Loan must be approved in writing by Fannie Mae Special Asset Management.

705.03B Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, the recommendation to change the property management for Property securing a Non-Performing Mortgage Loan must be included in the SWAT.

705.03C Approval Decision Criteria and Timing

The decision to approve the replacement property management
must focus on, among other customary underwriting criteria, identifying conflicts of interest between the proposed Property Manager and Fannie Mae, as well as evaluating the Property Manager's ability to maintain the Property's physical condition and improve operating income.

Fannie Mae will communicate its approval or rejection of the proposed replacement of the property management within thirty (30) days after receipt from the Servicer of all information necessary to render its decision. Fannie Mae's approval may be conditioned upon receiving additional documentation or the satisfaction of additional requirements. If Fannie Mae has not approved or conditionally approved the proposed replacement property management within thirty (30) days after the Servicer's request, the proposed change in property management will be deemed to be denied by Fannie Mae.

705.03D Documenting the Property Management Change

Unless the change in property management is through a court-appointed receiver, the Servicer must send an original Assignment of Management Agreement (Form 4508) for the proposed new property management company executed by the Borrower and information regarding the new property management company to Fannie Mae Special Asset Management to effect a change in Property management.

Section 706 Reinstatement; Calculation of Payoff Amount

706.01 Reinstatement

706.01A Primary Risk Mortgage Loans

For Primary Risk Mortgage Loans, if the Borrower offers to reinstate a Non-Performing Mortgage Loan at any time after the Mortgage Loan has been transferred to Fannie Mae Special Asset Management, the Servicer must notify Fannie Mae Special Asset Management in writing. Fannie Mae will make the determination of whether to allow reinstatement of the Non-Performing Mortgage Loan.

706.01B Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, if the Borrower offers to reinstate a Non-Performing Mortgage Loan at any time after a SWAT has been provided to Fannie Mae, the Servicer (if not the Lender with the risk of loss) will notify the Lender in writing and the Lender will make the determination of whether to allow reinstatement, subject to applicable law, and provide an updated SWAT to Fannie Mae.

706.02 Calculation of Payoff Amount
For either Primary Risk Mortgage Loans or Secondary Risk Mortgage Loans, if in the course of performing loss mitigation actions the Special Servicer requires a computation of the payoff amount for the Mortgage Loan (e.g., for a demand letter to Borrower after acceleration, preparation of litigation pleadings for foreclosure judgment or deficiency suit, determination of foreclosure bid, etc.), the Servicer shall calculate the full payoff amount and submit it for Fannie Mae’s confirmation in accordance with Part V, Chapter 2: Reporting and Remitting, Section 214.03: Calculating and Obtaining Confirmation of Payoff Amount. In those instances, if there is not an actual payoff of the Nonperforming Mortgage Loan expected, the anticipated foreclosure date or the “as of” date for the payoff shall be used as the “payoff date” in the calculation. In addition, the Servicer’s request for verification of the payoff amount must be submitted to Fannie Mae for confirmation at least two (2) business days before such payoff amount is needed by the Special Servicer or outside counsel for its demand letter, litigation pleadings, or other use.

Section 707 Non-Performing Primary Risk Mortgage Loans – Transfers to Fannie Mae Special Asset Management

707.01 Transfer to Special Servicing

At any time during the first 60 days after the Date of Default, a Non-Performing Primary Risk Mortgage Loan may be transferred to Fannie Mae Special Asset Management, to be the Special Servicer, if the Servicer or Fannie Mae determines that the Borrower is either not cooperating with attempts to resolve the default or it becomes apparent the Borrower will not be able to cure the default. Fannie Mae reserves the right to require any Non-Performing Primary Risk Mortgage Loan be transferred to Fannie Mae Special Asset Management prior to the 60th day after the Date of Default.

Any Non-Performing Primary Risk Mortgage Loan not previously transferred to Fannie Mae, as the Special Servicer, must be transferred to Fannie Mae Special Asset Management no later than the 60th day after the Date of Default.

707.02 Asset Review

At the time of the transfer of the Non-Performing Primary Risk Mortgage Loan to Fannie Mae for special servicing, in addition to the Servicing Transfer Memo prepared by the Servicer in accordance with Part V, Chapter 7: Non-Performing Mortgage Loans, Section 709.02: Servicing Transfer Memo, the assigned asset manager for Fannie Mae Special Asset Management and the appropriate representatives of the Servicer will engage in a discussion to determine what documents or additional due diligence may be required to review the status of the Non-Performing Mortgage Loan or the Property. This Asset Review may include:
the delivery of copies of the Loan Documents to Fannie Mae;

the review of the third-party reports obtained by the Lender prior to the origination of the Mortgage Loan;

the review of the Underwriter's Narrative, the Transaction Approval Memo or other underwriting analyses and materials of the Lender related to the Non-Performing Mortgage Loan;

the review of various other third-party reports, analyses, studies, proposals or other documents obtained by Fannie Mae or the Servicer subsequent to the origination of the Non-Performing Mortgage Loan;

obtaining additional third-party reports (including Property appraisal, environmental study or PCA), studies or proposals; or other documents or due diligence related to the Non-Performing Mortgage Loan; or

assessing the Borrower or Key Principal's financial condition, the operations of the Property, or the current market value and condition of the Property.

Section 708  Non-Performing Secondary Risk Mortgage Loans – Special Servicing

708.01  Servicer Performs Loss Mitigation Actions

For Secondary Risk Mortgage Loans, the Lender shall be the Special Servicer to perform all approved loss mitigation actions to be taken under the Dual Track Approach as described in this Chapter, including selecting and implementing a Course of Action for resolution of the Non-Performing Mortgage Loan.

708.02  Servicer Workout Action Template (“SWAT”)

708.02A  Delivery of SWAT

The Special Servicer must submit to Fannie Mae Special Asset Management a SWAT for review and approval not later than:

■ 60 days after the Date of Default for any Payment Default; or

■ 15 days after the Maturity Date if the Borrower fails to pay off the Mortgage Loan on or before the Maturity Date.

It is expected that the Special Servicer has collected the necessary data and documentation to prepare its loss mitigation plan for the Non-Performing Mortgage Loan and selected a Course of Action prior to submission of its SWAT.
708.02B Purpose of SWAT

The purpose for the SWAT is to ascertain Potential Losses associated with the Non-Performing Mortgage Loan and the impact to the Lender's recourse obligation. The SWAT communicates to Fannie Mae the Lender's selected Course of Action, the underlying collateral value (which may be the Special Servicer's estimate or a broker's opinion of value, prior to obtaining an appraisal), operations and physical condition of the Property, financial condition of the Borrower, and loss mitigation actions proposed to be taken by the Special Servicer. Additionally, the SWAT specifies an anticipated resolution date, the anticipated resolution costs, and, if foreclosure is the selected Course of Action, the timing for the Lender's purchase of the Mortgage Loan from Fannie Mae, as provided in this Chapter.

708.02C Contents of SWAT

The SWAT submission must include:

- a copy of the Note;
- a copy of the recorded Security Instrument; and
- a copy of the recorded Assignment of Security Instrument to Fannie Mae. If the Assignment has not been recorded, the Servicer must, within five (5) Business Days after delivery of the SWAT to Fannie Mae Special Asset Management either:
  - repurchase the Mortgage Loan from Fannie Mae in accordance with this Chapter; or
  - record the original Assignment and deliver to Fannie Mae a file-stamped copy of the recorded Assignment.

In addition, if foreclosure is the selected Course of Action, the SWAT must include justification for a bid at the foreclosure sale that is less than an amount calculated as follows:

- the actual UPB of the Mortgage Loan;
- accrued interest, plus default interest, to the date of foreclosure sale;
- sums advanced pursuant to the Security Instrument (e.g., taxes, legal costs and fees, etc.);
- the Yield Maintenance or Prepayment Premium; and
- accrued late charges;

Less the following amounts:
- funds held by the Servicer for taxes and insurance deposits, and Collateral Agreement deposits;
- funds collected or received as rents or net operating income; and
- proceeds from any insurance loss settlement.

708.02D  Fannie Mae Approves SWAT

If Fannie Mae approves the SWAT, the Special Servicer will be granted a limited power of attorney to take all actions on behalf of Fannie Mae, as the noteholder and record lien holder, in accordance with the approved SWAT. In addition, if the Special Servicer or its legal counsel determines that, with respect to a specific Non-Performing Mortgage Loan, a waiver of actions otherwise required in this Chapter is required by local law or a waiver will result in a more effective default resolution, then the Special Servicer must document the appropriate action through the SWAT.

708.02E  Fannie Mae does not Approve SWAT

If Fannie Mae and the Special Servicer are not in agreement with the recommended Course of Action and the SWAT is not approved by Fannie Mae:

- the Lender may purchase the Non-Performing Mortgage Loan from Fannie Mae without expectation or ability to utilize the Lender's recourse obligation, as provided in this Chapter; or

- Fannie Mae may select or implement a Course of Action of its choosing. In such an event, the Lender must reimburse Fannie Mae, within one (1) month following written demand with supporting documentation of the amounts expended, for all costs incurred by Fannie Mae in connection with its implementation of the Course of Action. Fannie Mae may require settlement of any claims at any time before completion of the Course of Action, based on a valuation process and reasonable estimates of its future costs. All sums paid by Lender pursuant to this provision shall not be deemed Actual Losses and shall not be reimbursed to Lender or credited against the Lender's recourse obligation.

708.02F  Updating SWAT

It is essential for the Special Servicer and Fannie Mae to have open and timely communication throughout the SWAT process. Therefore, all SWATs must be updated and resubmitted to Fannie Mae Special Asset Management until final disposition of the Non-Performing Mortgage Loan at the following intervals:
within three (3) Business Days after the Special Servicer's receipt of new information impacting the approved SWAT that changes its elected Course of Action, including granting any forbearance, changing any listing prices or sales strategies for the Property;

- at least ten (10) Business Days prior to a Non-Performing Mortgage Loan repurchase by Lender in accordance with this Chapter;

- at least five (5) Business Days prior to foreclosure sale, with a foreclosure strategy and bid justification to be determined as provided above in this Chapter;

- at least five (5) Business Days prior to the execution of any purchase and sale agreement for the Property; and

- at least every six (6) months after the initial SWAT submission even if no changes have been made.

### 708.02G  Failure to Timely Deliver SWAT

If Fannie Mae notifies the Special Servicer that it has failed to submit a SWAT in accordance with this Section, the Special Servicer must prepare and submit the SWAT within fifteen (15) Business Days following Fannie Mae's notification. Any continued failure to submit a required SWAT may result in Fannie Mae selecting or implementing a Course of Action of its choosing. In such an event, within one (1) month following written demand with supporting documentation of the amounts expended, the Lender must reimburse Fannie Mae for all costs incurred by Fannie Mae in connection with its implementation of the Course of Action. Fannie Mae may require settlement of any claims at any time before completion of the Course of Action, based on a valuation process and reasonable estimates of its future costs. All sums paid by Lender pursuant to this provision shall not be deemed Actual Losses and shall not be reimbursed to Lender or credited against the Lender's recourse obligation.

### 708.02H  No Credit Against Recourse

No credit against a Lender's recourse obligation will be given without an approved SWAT.

### Section 709  Special Servicing of Primary Risk Mortgage Loans

#### 709.01  Fannie Mae Performs Loss Mitigation Actions

For all Non-Performing Primary Risk Mortgage Loans, Fannie Mae or its contracted third-party special servicer shall be the Special Servicer and will make all decisions regarding loss mitigation and actions to be taken.
under the Dual Track Approach, including selecting and implementing a Course of Action. Therefore, the Servicer must remain in close contact with Fannie Mae Special Asset Management or the contracted third-party special servicer regarding all Primary Risk Mortgage Loans. Because of the loss sharing between Fannie Mae and the Lender, Fannie Mae or its contracted third-party special servicer will:

- provide the Lender with copies of correspondence and pleadings related its loss mitigation;
- include the Lender in discussions regarding the selection and implementation of the Course of Action; and
- provide the Lender with regular updates regarding the status of the Non-Performing Primary Risk Mortgage Loan.

Notwithstanding the foregoing, if the Lender or any of its subsidiaries or affiliates holds any equity interest in the Borrower (either as a direct investment or as a mezzanine lender), any correspondence or communications will not be given to the Lender regarding the Non-Performing Primary Risk Mortgage Loan, other than copies of any correspondence required to be given to the Borrower.

Fannie Mae Special Asset Management or its contracted third-party special servicer will be the Servicer’s primary point of contact during default resolution. While Fannie Mae or its contracted third-party special servicer will make all decisions on Primary Risk Mortgage Loans, including application of payments, handling of reserves, and reinstatement of the Mortgage Loan, the Servicer must comply with those determinations as part of its servicing duties. If a Servicer takes any action on a Non-Performing Primary Risk Mortgage Loan without the prior approval of Fannie Mae or its contracted third-party special servicer, such action will constitute a breach of the Servicer's obligations to Fannie Mae.

709.02 Servicing Transfer Memo

The Dual Track Approach requires a more formal relationship with the Borrower during the default resolution process. The Servicer and Fannie Mae must work together to collect the data and documentation needed to engage counsel and commence foreclosure proceedings. The Servicer is required to prepare a Servicing Transfer Memo (Form 4808). The Servicing Transfer Memo must be timely completed by the Servicer and delivered to Fannie Mae per Part V, Chapter 7: Non-Performing Mortgage Loans, Section 707.01: Transfer to Special Servicing. Following the transfer of the Non-Performing Mortgage Loan to Fannie Mae, the Servicer must have no conversations or communication with the Borrower regarding the defaults, the Property condition, possible workouts or reinstatement, or other matters typically handled by the Special Servicer.
Section 710 Engagement of Legal Counsel

710.01 Fannie Mae Retains Legal Counsel

All legal counsel, whether for Primary Risk Mortgage Loans or Secondary Risk Mortgage Loans, must be retained by Fannie Mae. An Engagement of Counsel Letter will be used to document the contractual engagement and a copy will be provided to the Servicer and Special Servicer.

710.02 Primary Risk Mortgage Loans

For Primary Risk Mortgage Loans, Fannie Mae will refer the matter to legal counsel in the Property jurisdiction. The legal counsel will provide copies of all correspondence, pleadings and documents to the Servicer, the Lender (if different from the Servicer) and Fannie Mae, unless Fannie Mae's attorney-client privilege requires otherwise. Neither the Lender nor the Servicer (if different from the Lender) is permitted to have any conversations with legal counsel on Primary Risk Mortgage Loans, without also including a representative of Fannie Mae's Special Asset Management.

710.03 Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, the Special Servicer must refer the matter to Fannie Mae's legal counsel in the Property jurisdiction pursuant to the approved SWAT. Fannie Mae will provide a listing of legal counsel on retainer with Fannie Mae in the Property jurisdiction for the Special Servicer's choice or Fannie Mae will provide a recommendation to the Special Servicer based upon the nature of the default and other facts unique to the Non-Performing Mortgage Loan. Prompt completion and approval of the SWAT will give legal counsel sufficient time to complete its conflicts check and to begin the foreclosure process as described in this Chapter by commencing legal action to enforce the assignment of rents and initiating a foreclosure action. The legal counsel will provide copies of all correspondence, pleadings and documents to both the Lender and Fannie Mae, unless Fannie Mae's attorney-client privilege requires otherwise. For Secondary Risk Mortgage Loans, legal counsel will provide its invoices for fees and expenses to the Special Servicer for payment.

710.04 Payment of Legal Counsel Fees

710.04A Primary Risk Mortgage Loans

Fannie Mae will pay all legal counsel fees for Primary Risk Mortgage Loans, which counsel fees will be included in the calculation of final settlement of loss. If the Lender or Servicer chooses to retain separate legal counsel on Primary Risk Mortgage Loans, the fees and costs of the
Lender's or Servicer's legal counsel will not be included in the final settlement of loss.

710.04B Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, the Special Servicer shall pay all legal counsel fees; however, prior to the Lender's repurchase of the Secondary Risk Mortgage Loan as provided in this Chapter, the outside counsel represents Fannie Mae as the noteholder. Notwithstanding the payment of legal fees by the Special Servicer, so long as Fannie Mae is the noteholder, Fannie Mae is the client to outside counsel pursuant to the Engagement of Counsel Letter, and the payment of legal fees by the Special Servicer shall not be deemed to have created an attorney-client relationship between the Special Servicer and outside counsel. For Secondary Risk Mortgage Loans, the Special Servicer must provide Fannie Mae Special Asset Management with a copy of all invoices for legal services paid on behalf of Fannie Mae, and those legal counsel fees will be included in the calculation of the final settlement of loss.

Section 711 Courses of Action

711.01 Election and Implementation of a Course of Action

As described in this Chapter, Fannie Mae is the Special Servicer and performs all loss mitigation activities for Primary Risk Mortgage Loans. As such, Fannie Mae as the Special Servicer will elect a Course of Action (either jointly with the Lender, if applicable, or separately, depending upon the specific Course of Action), and implement the elected Course of Action. For Secondary Risk Mortgage Loans, the Special Servicer shall recommend the Course of Action in the Servicing Workout Action Template (“SWAT”) and, once approved by Fannie Mae, implement such Course of Action.

The Courses of Action are:

- Lender Purchase of Mortgage Loan, as described in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.02: Course of Action – Lender Purchase of Mortgage Loan;

- Lender Workout, as described in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.03: Course of Action – Lender Workout Election;

- Joint Fannie Mae/Lender Workout (a “Joint Workout”), as described in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.04: Course of Action – A Joint Workout;

- Foreclosure, as described in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.05: Course of
Action - Foreclosure; and

- Note Sale or Discounted Loan Payoff, as described in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.06: Course of Action – Note Sale Election or Discounted Loan Payoff.

A Lender Purchase of Mortgage Loan and a Lender Workout may be exercised solely by the Lender and in the Lender's sole discretion, subject to the requirements of Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.02: Course of Action – Lender Purchase of Mortgage Loan and Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.03: Course of Action – Lender Workout Election. A Joint Workout must be agreed to jointly by Fannie Mae and the Lender, and implemented prior to the conclusion of a foreclosure, as provided in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.04: Course of Action – A Joint Workout. A Note Sale or Discounted Loan Payoff, as an alternative to foreclosure, must also be agreed to jointly by Fannie Mae and the Lender, as provided in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.06: Course of Action – Note Sale Election or Discounted Loan Payoff. Fannie Mae will generally follow the Dual Track Approach and, unless one of the other Courses of Action is being followed, a Foreclosure will be the applicable Course of Action.

### 711.02 Course of Action – Lender Purchase of Mortgage Loan

**LENDER PURCHASE OF A SECURITIZED MORTGAGE LOAN IS NOT PERMITTED UNLESS THE MORTGAGE LOAN HAS BEEN DELINQUENT FOR FOUR CONSECUTIVE MONTHS. ONLY AFTER THE PASSAGE OF SUCH FOUR CONSECUTIVE MONTH DELINQUENCY PERIOD MAY THE MORTGAGE LOAN BE REMOVED FROM THE SECURITY TRUST. A DELINQUENT MORTGAGE LOAN MUST BE REMOVED FROM THE SECURITY TRUST NOT LATER THAN 24 MONTHS AFTER INITIAL DELINQUENCY.**

#### 711.02A Primary Risk Mortgage Loans

If the Non-Performing Mortgage Loan is four or more consecutive months delinquent, the Lender, at its option, may purchase the Mortgage Loan from Fannie Mae with its own funds and pursue its own course of action with respect to that Mortgage Loan.

#### 711.02B Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, the Lender must specifically indicate this Course of Action on its SWAT, which will serve as
documentation of the Lender's agreement to repurchase the Mortgage Loan. Neither the purchase price nor any losses incurred on a Secondary Risk Mortgage Loan repurchased by the Lender pursuant to this Course of Action will be included in any loss sharing with Fannie Mae or be credited against the Lender's recourse obligation but will be solely for the account of the Lender.

711.02C  Purchase Price for Mortgage Loans

For Primary Risk Mortgage Loans and Secondary Risk Mortgage Loans purchased pursuant to this Section, unless otherwise provided in the Lender's Contract, the purchase or repurchase price will be equal to:

- the then unpaid actual principal balance of the Mortgage Loan; plus
- interest as follows:
  - except for any Securitized Mortgage Loan, interest accrued through the purchase date; or
  - for any Securitized Mortgage Loan, interest for the entire month in which the purchase occurs based on the Security Balance remaining after applying the scheduled Mortgage Loan payment due on the first day of that month; plus
- any Prepayment Premium or Yield Maintenance owed to Fannie Mae as of the purchase date pursuant to the terms of the Note; less
- any Delinquency Advance made, but not reimbursed either by Fannie Mae or by or on behalf of the Borrower.

711.02D  No Fannie Mae Approval Required

The election and implementation of this Course of Action does not require Fannie Mae’s concurrence or approval as long as the Lender complies with the foregoing requirements and exercises this option prior to the foreclosure sale or the conclusion of any other Course of Action.

711.02E  Implementation of Course of Action

If this Course of Action is elected by the Lender, then the Lender may purchase the Non-Performing Mortgage Loan by:

- giving written notice to Fannie Mae of such election, or, if a Secondary Risk Mortgage Loan, indicating such election on the initial SWAT or updated SWAT, no later than 10 Business Days before the proposed purchase date, that Lender has elected to purchase the Mortgage Loan and identifying the anticipated
purchase date;

- purchasing the Mortgage Loan on the identified purchase date at the purchase price as calculated in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.02C: Purchase Price for Mortgage Loans;

- purchasing the Mortgage Loan in the Lender’s own name or the name of an affiliate as indicated on the written notice of its election of this Course of Action, and thereafter implementing its own Course of Action with respect to that Mortgage Loan;

- delivering to Fannie Mae on the identified purchase date the purchase price, together with an original assignment of the Mortgage Loan, in recordable form for the applicable property jurisdiction, and such other assignment documents as may be necessary to fully assign, without recourse, representation, or warranty, Fannie Mae’s interest in the Mortgage Loan to the Lender; and

- all documents delivered to Fannie Mae for execution shall be pursuant to Part V, Chapter 4: Asset Management: Loan Document Administration, Section 404.01: Submission of Documents to Fannie Mae.

Within five Business Days following receipt from the Lender of the purchase price and the assignment, Fannie Mae will execute and return to the Lender the original assignment, together with:

- the original Note endorsed, without recourse, representation or warranty, to the Lender (or its affiliate);

- the original Mortgage Loan file; and

- such other documents as necessary to fully assign, without recourse, representation or warranty, Fannie Mae’s interest in the Mortgage Loan to the Lender (or its affiliate).

### 711.03 Course of Action – Lender Workout Election

#### 711.03A Lender Workout Defined

With any Non-Performing Mortgage Loan in Monetary or Payment Default, the Lender may enter into an arrangement with the Borrower in which the Lender agrees to make its own loan and advance its own funds to the Borrower to cure the defaults (a “Lender Workout”).

Examples of instances where a Lender Workout may be appropriate include:
- Property cash flow shortfall is temporary in nature;
- the Mortgage Loan becomes delinquent within the first year following the sale of the Mortgage Loan to Fannie Mae;
- the cost of the Lender Workout to the Lender may be less than the cost to the Lender of a Joint Workout or foreclosure; or
- Mortgage Loans at Loss Level II or III.

711.03B Documentation and Terms of Lender Workout

A Lender Workout must be documented as a separate loan from the Lender to the Borrower to meet the Property’s operating needs and fully cure the Monetary or Payment Default. The Lender may place whatever restrictions it deems appropriate on the disbursement and use of the funds. The Lender Workout loan may be unsecured, secured by a subordinate lien against the Property (with Fannie Mae’s prior approval), or secured by other collateral. Any subordinate lien, by its express terms, must be fully subordinated to all Mortgage Loans in favor of Fannie Mae, and must comply with the requirements for junior liens included in Parts I, II, and III. The Loan Documents evidencing the Lender Workout loan must clearly indicate that the loan does not in any way affect the status of the Mortgage Loans owned by Fannie Mae or any of Fannie Mae’s rights or remedies in connection therewith, and that the amount owed under the Lender Workout is owed only and directly to the Lender and is not added to Fannie Mae’s Mortgage Loan(s).

711.03C Lender Workout Has No Impact on Loss Sharing or Recourse Obligation

1. Primary Risk Mortgage Loans

Any sums lent by the Lender or expenses incurred by the Lender in a Lender Workout will not be included in the final settlement of loss for the Primary Risk Mortgage Loan.

2. Secondary Risk Mortgage Loans

Any losses incurred on a Secondary Risk Mortgage Loan as a result of the Lender Workout will be the obligation of the Lender but will not be applied as a credit against the Lender’s recourse obligation.

711.03D No Fannie Mae Approval Required

Before committing to a Lender Workout with the Borrower, the Lender must obtain the written approval of Fannie Mae Special Asset Management. Fannie Mae Special Asset Management will have 10 Business Days from receipt of written notice from the Lender, containing the terms of the Lender Workout to approve or disapprove the Lender Workout Course of Action. With its notice of its intention to enter into a Lender
Workout, the Lender must deliver a copy of the proposed Lender Workout documents, including subordinate lien documentation, if applicable, to Fannie Mae Special Asset Management for review and approval prior to execution. The purpose of this review is to determine that:

- the Lender Workout and related documents:
  - do not modify or waive any of the terms of the Mortgage Loan(s), including the Note rate, term, or amortization;
  - do not modify or waive any of the terms of the Collateral Agreements;
  - do not limit, waive, or lessen Fannie Mae’s rights, claims, or remedies under its Security Instrument including, but not limited to, obtaining a priority claim in a bankruptcy proceeding as a result of lending money to the Borrower;
  - do not prevent, or otherwise limit, Fannie Mae from enforcing its rights under the Mortgage Loan Documents in the event the Lender defaults under its workout with the Borrower; or
  - do not violate any bond documentation or Security rules, if applicable;

- the term of the Lender Workout loan does not exceed 24 months; and

- Fannie Mae is satisfied with the performance of any previous Lender Workouts and the total of all Lender Workouts does not materially impact the Lender’s financial condition.

If the Non-Performing Mortgage Loan has been accelerated prior to notice of the Lender Workout, it is in Fannie Mae’s sole discretion to agree to accept less than the full payoff and reinstate the Mortgage Loan.

If Fannie Mae approves the Lender Workout, the Lender must deliver a copy of the executed Lender Workout documents, including a Subordination Agreement, if applicable, to Fannie Mae Special Asset Management and to Fannie Mae Asset Acquisition and Custody. If the Borrower subsequently defaults under the Mortgage Loan after the Lender Workout, then the Servicer must follow the procedure outlined in this Chapter for a Non-Performing Mortgage Loan as if no Lender Workout occurred.

711.03E Servicer Makes Delinquency Advances But Fails to Report Mortgage Loan Delinquent

If a Servicer advances P&I payments on a Mortgage Loan with a Monetary or Payment Default, but the Mortgage Loan has not been reported
as delinquent on the Multifamily Delinquency System as required in this
Chapter, such advances will be considered an unauthorized Lender Workout
and will not be considered a Delinquency Advance.

711.03F Foreclosure Process Continues Unless Otherwise Agreed to by Fannie Mae

If a Lender Workout is approved, the foreclosure process will continue until the earlier of the curing of the defaults by the Lender Workout or the foreclosure sale. If Fannie Mae approves the Lender Workout, the Lender must fully implement the Lender Workout on the approved terms, and thereby cure all defaults, prior to any scheduled foreclosure sale or the conclusion of any other Course of Action by Fannie Mae. If the Lender Workout is proceeding and is likely to be consummated, Fannie Mae may agree to reschedule (but not cancel) the foreclosure sale. Any agreement to delay a foreclosure sale or any other Course of Action to allow the implementation of the Lender Workout will be solely in Fannie Mae’s discretion.

711.04 Course of Action – A Joint Workout

JOINT WORKOUTS ARE NOT AVAILABLE FOR SECURITIZED MORTGAGE LOANS WHILE THE MORTGAGE LOAN REMAINS IN THE SECURITY TRUST.

711.04A Joint Workout Defined

Either the Lender or Fannie Mae may propose that the Lender and Fannie Mae attempt to negotiate a Joint Workout with the Borrower with respect to a Non-Performing Mortgage Loan. A refinancing of the Non-Performing Mortgage Loan under Fannie Mae’s In Place Loan execution as described in Part V, Chapter 8: In Place Loans is a Joint Workout under this Chapter.

711.04B Delinquency Advances Must Be Made During Negotiation of Joint Workout

If Fannie Mae and the Lender agree upon a Joint Workout, then during the negotiation of the workout agreement, the Servicer must continue to make Delinquency Advances to Fannie Mae in accordance with the Lender’s Contract. (See the Checklist of Issues to Consider in Doing a Workout Analysis (Form 4809) to review the specific tasks to be completed prior to electing a Joint Fannie Mae/Servicer Workout.)

711.04C Joint Workout Process

The following is a general description of how a Joint Workout process might work.

1. Fact-Finding Meeting
The first contact between the Borrower, Fannie Mae and the Lender will be a fact-finding meeting and will focus on:

- explaining the Dual Track Approach and, if the Pre-Negotiation Letter has not been signed, executing the letter;
- reviewing the documents necessary for the Servicer or Fannie Mae to complete its due diligence and the Asset Review (for a Primary Risk Mortgage Loan) or Asset Audit (for a Secondary Risk Mortgage Loan); and
- the Borrower’s explanation of its requested relief.

2. Fannie Mae and Lender Meeting

A separate meeting between Fannie Mae and the Lender will focus on:

- reviewing the Lender’s and Fannie Mae’s due diligence;
- reviewing the Borrower’s request;
- formulating a response to the Borrower’s request with emphasis on the source and use of funds necessary to implement the Joint Workout; and
- the impact of the Joint Workout on the Lender’s servicing and loss sharing obligations to Fannie Mae and any modifications to each that need to be made.

It is important that any differences between Fannie Mae and the Lender be resolved at this meeting. If the Lender’s contribution to the Joint Workout or a modification to its servicing or loss sharing obligations must be documented, this must be included in a separate document between Fannie Mae and the Lender.

3. Workout Meeting with Borrower

If a Joint Workout appears feasible, Fannie Mae and the Lender will schedule a workout meeting with the Borrower. All parties, including Fannie Mae, the Lender, the Borrower, and their respective legal counsel, must attend and must allow enough time to facilitate a workout. Those in attendance must have authority to execute documents pursuant to a signed Pre-Negotiation Letter. Experience indicates that to be most productive, the workout meeting should start early in the morning and continue until a deal is reached or the parties agree to disagree.

4. Letter of Intent

If agreement is reached on all of the terms of the Joint Workout, counsel will draft a non-binding letter of intent, to be executed during the workout meeting. This letter of intent will set forth each party’s agreements and obligations until the formal, written modification documents are
completed. The letter of intent must be specific enough to fully reflect the intent of the parties (other than any modifications to the Lender’s servicing or loss sharing obligations). Until the formal modification documents are completed and executed by all parties, there has been no modification of the terms of the Non-Performing Mortgage Loan or the Borrower’s obligations.

711.04D Modification, Extension, and Forbearance Fees

The Lender is not permitted to charge or collect from the Borrower a fee for any modification, extension, or forbearance of a Mortgage Loan without the prior written consent of Fannie Mae. If the Lender has a loss sharing obligation to Fannie Mae, then Fannie Mae and the Lender may jointly elect to charge the Borrower a modification, extension or forbearance fee. If Fannie Mae and the Lender elect to charge such fee, and so long as the Lender has a loss sharing obligation to Fannie Mae, Fannie Mae will share such fee with the Lender on the basis of:

- if the applicable Mortgage Loan is a Pre-Review Large Mortgage Loan under Fannie Mae’s Multifamily Underwriting Standards (Form 4660), then pro rata between the Lender and Fannie Mae in accordance with their respective loss sharing percentages for such Mortgage Loan (taking into account any Modified Risk Loss Sharing (as defined in the Loss Sharing Addendum) applicable to the Mortgage Loan); or

- if the applicable Mortgage Loan is not a Pre-Review Large Mortgage Loan, then 40 percent to the Lender and 60 percent to Fannie Mae.

711.04E Triggering Modification Fees; Other Fees

If a Triggering Modification has occurred, a Triggering Modification Interim Loss Sharing calculation was made and a reserve was established against the Lender’s Operational Liquidity (as provided in the Loss Sharing Addendum), any fees other than those provided for in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.04D: Modification, Extension, and Forbearance Fees shall be split between Fannie Mae and the Servicer in accordance with their respective loss sharing percentages at the time of the Triggering Modification (taking into account any Modified Risk Loss Sharing applicable to the Mortgage Loan). Except as provided in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.04D: Modification, Extension, and Forbearance Fees with respect to modification, extension and forbearance fees, and any fees required by Fannie Mae in connection with a Triggering Modification, no other fees required by Fannie Mae in connection with a Mortgage Loan modification, extension or forbearance shall be split between the Lender and Fannie Mae.
711.04F Foreclosure Process Continues Unless Otherwise Agreed to by Fannie Mae

The discussions with the Borrower in attempting to reach agreement on a Joint Workout are part of Track One of the Dual Track Approach (maintaining dialogue with the Borrower to attempt to resolve the defaults) as outlined in this Chapter. Accordingly, Track Two, the Foreclosure Track, of the Dual Track Approach will continue and will not be postponed or delayed until agreement with the Borrower has been reached and the Joint Workout has been documented. If the Joint Workout is proceeding and is likely to be consummated, Fannie Mae may agree to reschedule (but not cancel) the foreclosure sale. If the parties are unable to agree on a Joint Workout, the parties shall continue to pursue the Track Two approach and proceed to foreclosure or such other Fannie Mae-approved course of action.

711.05 Course of Action - Foreclosure

LENDER PURCHASE OF A SECURITIZED MORTGAGE LOAN IS NOT PERMITTED UNLESS THE MORTGAGE LOAN HAS BEEN DELINQUENT FOR FOUR CONSECUTIVE MONTHS. ONLY AFTER THE PASSAGE OF SUCH FOUR CONSECUTIVE MONTH DELINQUENCY PERIOD MAY THE MORTGAGE LOAN BE REMOVED FROM THE SECURITY TRUST. A DELINQUENT MORTGAGE LOAN MUST BE REMOVED FROM THE SECURITY TRUST NOT LATER THAN 24 MONTHS AFTER INITIAL DELINQUENCY.

711.05A Primary Risk Mortgage Loans

Unless one of the other Courses of Action described in this Section has been selected, Fannie Mae will instruct outside counsel to vigorously pursue a foreclosure, following the foreclosure process described under Track Two of the Dual Track Approach in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 712: Dual Track Approach.

711.05B Secondary Risk Mortgage Loans

Unless one of the other Courses of Action described in this Section has been selected and, if part of a SWAT approved by Fannie Mae, the Special Servicer will instruct outside counsel to vigorously pursue a foreclosure, following the foreclosure process described under Track Two of the Dual Track Approach in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 712: Dual Track Approach.

If foreclosure is the approved Course of Action for a Non-Performing Secondary Risk Mortgage Loan, the Lender must purchase the
Mortgage Loan from Fannie Mae. Such purchase of the Mortgage Loan from Fannie Mae is not considered to be the exercise of the Course of Action set forth in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.02: Course of Action – Lender Purchase of Mortgage Loan, but is part of the foreclosure Course of Action under this Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.05: Course of Action - Foreclosure and is to permit the Lender to credit bid at the foreclosure sale and/or if the winning bidder, to permit the Lender to hold title to and operate the Property in the name of the Lender or its designee. In connection with exercising the foreclosure Course of Action, the Lender must purchase the Mortgage Loan under one of the following options, either of which must be identified in the SWAT submitted to Fannie Mae.

1. **Purchase Prior to Foreclosure**

The Lender may purchase the Non-Performing Secondary Risk Mortgage Loan prior to foreclosure by:

- indicating on the initial SWAT, or updated SWAT received by Fannie Mae no later than 10 Business Days before the proposed purchase date, that Lender has elected to purchase the Mortgage Loan prior to foreclosure, and identifying the anticipated purchase date;

- purchasing, on the identified purchase date, the Mortgage Loan from Fannie Mae at the purchase price as calculated below in this Part V, Section 711.05.B;

- purchasing the Mortgage Loan in the Lender’s own name (or the name of an affiliate as indicated on the approved SWAT), and thereafter implementing the foreclosure process in its own name;

- within five Business Days following receipt from the Lender of the purchase price together with an original assignment of the Mortgage Loan, in recordable form, Fannie Mae will execute and return the original assignment, together with:
  - the original Note endorsed, without recourse, representation or warranty, to the Lender (or its affiliate);
  - the original Mortgage Loan file; and
  - such other documents as necessary to fully assign, without recourse, representation or warranty, Fannie Mae’s interest in the Mortgage Loan to the Lender (or its affiliate);

- all documents delivered to Fannie Mae for execution shall be pursuant to Part V, Chapter 4: Asset Management: Loan Document Administration, Section 404.01: Submission of Documents to Fannie Mae;
after completion of the foreclosure, the Lender or its affiliate will hold title to the Property until disposition;

the Lender will continue to submit updated SWATs for Fannie Mae’s approval until disposition of the Property, at which time the Lender will submit its Loss Notification Form (Form 4817) (as provided in the Lender’s Contract) to Fannie Mae; and

if the Non-Performing Secondary Risk Mortgage Loan reinstates by the Borrower following the Lender’s purchase but prior to the foreclosure sale, the Lender will not be entitled to credit any future losses on the Mortgage Loan against its recourse obligation.

2. Purchase Immediately After Foreclosure

The Lender may purchase the Non-Performing Secondary Risk Mortgage Loan immediately following foreclosure by:

- indicating on the initial SWAT, or updated SWAT received by Fannie Mae no later than 60 Business Days before the foreclosure sale date, that Lender has elected to purchase the Mortgage Loan immediately following foreclosure (assuming Fannie Mae is the winning bidder at the foreclosure sale), and identifying the anticipated foreclosure sale date;

- including with such SWAT an initial Asset Audit prepared no later than 60 days following the Date of Default, and providing to Fannie Mae a final and complete Asset Audit at least 60 Business Days prior to foreclosure;

- no later than 10 Business Days prior to the foreclosure sale date, prepare and deliver to Fannie Mae an original Special Warranty Deed, in recordable form, and an escrow letter as provided below. Fannie Mae will execute and deliver to an agreed-upon escrow agent, pursuant to escrow instructions also prepared by the Lender, the Special Warranty Deed, together with (i) the original Note endorsed, without recourse, representation or warranty, to the Lender, and (ii) the original Mortgage Loan file. Such escrow letter must contain instructions that require the escrow agent, within five Business Days following the foreclosure sale date, to either (a) deliver the Special Warranty Deed and other required documentation to Lender upon Fannie Mae’s confirmation of receipt of the purchase price or (b) return the original Special Warranty Deed and all other documentation to Fannie Mae;

- all documents delivered to Fannie Mae for execution shall be pursuant to Part V, Chapter 4: Asset Management: Loan Document Administration, Section 404.01: Submission of
Documents to Fannie Mae;

- on the foreclosure sale date, the Lender purchases the Property from Fannie Mae at the purchase price as calculated below in this Part V, Section 711.05.B;
- the Lender purchases the Mortgage Loan in its own name (or the name of an affiliate as indicated on the approved SWAT), and thereafter owns, operates and manages the Property until disposition;
- the Special Warranty Deed from Fannie Mae must be filed of record immediately following the recording of the foreclosure or trustee’s deed into Fannie Mae; and
- the Lender will continue to submit updated SWATs for Fannie Mae’s approval until disposition of the Property, at which time the Lender will submit its Loss Notification Form (Form 4817) to Fannie Mae.

3. Purchase Price for Purchase Immediately Prior To or After Foreclosure

For Secondary Risk Mortgage Loans purchased pursuant to this Section, unless otherwise provided in the Lender’s Contract, the purchase or repurchase price will be equal to:

- the then unpaid actual principal balance of the Mortgage Loan; plus
- interest as follows:
  - except for any Securitized Mortgage Loan, interest accrued through the purchase date; or
  - for any Securitized Mortgage Loan, interest for the entire month in which the purchase occurs based on the Security Balance remaining after applying the scheduled Mortgage Loan payment due on the first day of that month; less
- any Delinquency Advance made, but not reimbursed either by Fannie Mae or by or on behalf of the Borrower.

711.05C Deed-in-Lieu of Foreclosure

Fannie Mae, in its sole discretion, may or may not elect to take a deed-in-lieu of foreclosure for any Primary Risk or Secondary Risk Mortgage Loan.

711.05D Management of Property Post Title Vesting in Fannie Mae
If Lender has made a Deferred Asset Valuation Date Election under its Loss Sharing Addendum, and title to a Property has vested in Fannie Mae, its affiliate or nominee as a result of a Foreclosure Event (as defined in the Loss Sharing Addendum) or other judicial process, Fannie Mae shall, except for matters relating to life/safety at the Property, consult with the Lender for purposes of making joint decisions with the Lender with respect to major decisions regarding the management and disposition of the Property, including but not limited to:

- the timing and terms of listing the Property for sale;
- the acceptance of terms of sale of the Property;
- any financing of the Property;
- approval of any business plan with respect to the Property;
- approval of each annual budget for the Property;
- any deviation from the approved budget by more than 20 percent with respect to any line item on a semi-annual basis;
- approval and implementation of any rehabilitation or renovation plan with respect to the Property;
- any decision to and implementation of a plan to develop any or all of the Property;
- any capital expenditures in excess of $50,000 with respect to the Property;
- engagement of any professional advisors, other than in the ordinary course of business;
- entering into any Material Commercial Lease of any space within a Property, other than in the ordinary course of business;
- commencement, institution or settlement of any legal proceedings with respect to the Property, other than eviction and termination proceedings in respect of tenant leases and other non-material legal proceedings for the collection of amounts due and owing from third parties and tenants undertaken in the ordinary course of business; and
- the decision and implementation of any plan not to rebuild or restore the Property following any casualty or condemnation.

Any request by Fannie Mae with respect to a major decision shall be responded to in writing by the Lender within two Business Days of the making of such request. Any request with respect to a major decision not responded to by the Lender within two Business Days shall be deemed approved.
Deficiency Suits

1. General

If a foreclosure sale is conducted with respect to a Property, Fannie Mae shall determine whether to pursue a deficiency against the Borrower or pursue any guarantor who may have liability with respect to such Mortgage Loan post-foreclosure or other final disposition of the Mortgage Loan (a “Deficiency Suit”), if such action is available under applicable state law.

Nothing in this Section E shall be deemed to relieve either Lender or Fannie Mae from any claims of indemnification under the terms of their Contract.

2. Fannie Mae Deficiency Suit Election

If Fannie Mae elects to pursue a Deficiency Suit, and the Lender’s Allocable Percentage per the Loss Sharing Addendum with respect to the relevant Mortgage Loan is greater than zero, the Lender may elect to share in the cost and recovery related to such Deficiency Suit. If the Lender elects to participate in such Deficiency Suit, Fannie Mae shall bear 67 percent of the costs and expenses of such Deficiency Suit, and the Lender shall bear 33 percent of the costs and expenses of such Deficiency Suit. Likewise, any recovery resulting from the Deficiency Suit shall be shared 67 percent to Fannie Mae and 33 percent to the Lender.

If Fannie Mae elects to pursue a Deficiency Suit, whether or not the Lender elects to participate in such Deficiency Suit, Fannie Mae shall make all decisions in its sole and absolute discretion regarding such Deficiency Suit, including but not limited to, selection of counsel, election of venue, relief to be sought, and the settlement of the Deficiency Suit.

3. Lender Deficiency Suit Election

If Fannie Mae elects not to pursue a Deficiency Suit following foreclosure, at the Lender’s request, Fannie Mae shall assign the Deficiency Suit to the Lender, to the extent permitted by law and provided that such assignment shall be at no cost to Fannie Mae, and the Lender may thereafter pursue such Deficiency Suit in its own name. If the Lender does pursue the Deficiency Suit, Fannie Mae may elect to participate in the cost and recovery of such Deficiency Suit. All costs and expenses of such Deficiency Suit will be shared equally between the Lender and Fannie Mae, and likewise, any recovery resulting from such Deficiency Suit shall be shared equally between the Lender and Fannie Mae.

If Fannie Mae elects not to pursue a Deficiency Suit, and the Lender elects to pursue such Deficiency Suit in its own name, Lender shall make all decisions in its sole and absolute discretion regarding such Deficiency Suit, including but not limited to selection of counsel, election of venue, relief to be sought, and the settlement of the Deficiency Suit.
4. Costs and Expenses; Loss Sharing

If the Lender and Fannie Mae are sharing the costs and expenses of any Deficiency Suit, the party prosecuting such Deficiency Suit shall submit copies of all invoices to the other party for reimbursement of the other party’s share of all costs and expenses incurred in connection with such Deficiency Suit. Such invoices shall be submitted no more frequently than every three months and shall be paid within 30 days of receipt.

Any recovery resulting from a Deficiency Suit, regardless of whether Fannie Mae or the Lender has participated in such Deficiency Suit, shall not affect the determination and payment of loss sharing pursuant to the Loss Sharing Addendum.

5. Withdrawal from Deficiency Suit

If Fannie Mae and the Lender are participating in a Deficiency Suit, either party may elect at any time to withdraw from the Deficiency Suit, in which case the withdrawing party shall be obligated to share the costs and expenses in the percentages set forth above through the date of its withdrawal. The withdrawing party shall not participate in any recovery.

711.06 Course of Action – Note Sale Election or Discounted Loan Payoff

**NOTE SALES OR DISCOUNTED LOAN PAYOFFS ARE NOT AVAILABLE FOR SECURITIZED MORTGAGE LOANS WHILE THE MORTGAGE LOAN REMAINS IN THE SECURITY TRUST.**

711.06A Note Sale and Discounted Loan Payoff Defined

As an alternative to foreclosure of the Property, it may be the best exit strategy for Fannie Mae and the Lender to agree to sell Fannie Mae’s interest as the Noteholder. A sale of the Non-Performing Mortgage Loan to a third party is a “Note Sale”, and accepting less than the full payoff from the Borrower is a “Discounted Loan Payoff”. Such sale of the Non-Performing Mortgage Loan or acceptance of a Discounted Loan Payoff must be on terms mutually-agreeable to Fannie Mae and Lender.

711.06B Lender Ability to Bid

If Fannie Mae and the Lender agree to consider a Note Sale as the Course of Action for a Non-Performing Primary Risk Mortgage Loan, the Lender will have the option to participate in the Note Sale bidding process with other potential third-party purchasers after Fannie Mae and the Lender have mutually-agreed upon the Note Sale terms and pricing floor. The Lender’s bid will be considered by Fannie Mae on the same basis as any other third-party bids received for the Note Sale. If the Lender is the
successful bidder, the Lender will purchase the Non-Performing Mortgage Loan on the same terms as published to all bidders by Fannie Mae or, if utilized, the Note Sale broker. Any such sale of the Non-Performing Mortgage Loan to the Lender shall be without recourse, representation or warranty by Fannie Mae, except as otherwise agreed by Fannie Mae.

711.06C Any Note Sale or Discounted Payoff Gives Rise to Loss Sharing Event

Any loss incurred by Fannie Mae in connection with a Note Sale or Discounted Payoff is a loss sharing event as contemplated by the Lender’s Contract.

711.06D Note Sale – Secondary Risk Mortgage Loans

For Non-Performing Secondary Risk Mortgage Loans, the selection of a Note Sale as the Course of Action must be included in the SWAT submitted to Fannie Mae for approval. The approved Note Sales price will be the Asset Value for purposes of determining the reduction in the Lender’s recourse obligation.

If a Note Sale is the approved Course of Action for a Non-Performing Secondary Risk Mortgage Loan, the Lender must purchase the Mortgage Loan from Fannie Mae under one of the following options, either of which must be identified in the SWAT submitted to Fannie Mae.

1. Purchase Prior to Consummation of the Note Sale with the Third-Party Note Purchaser

The Lender may purchase the Non-Performing Secondary Risk Mortgage Loan from Fannie Mae prior to consummation of the Note Sale by:

- indicating such election on the initial SWAT or updated SWAT, received by Fannie Mae no later than 15 Business Days before the proposed purchase date, that Lender has elected to purchase the Mortgage Loan prior to the Note Sale closing and identifying the anticipated purchase date;

- purchasing, on the identified purchase date, the Mortgage Loan from Fannie Mae at the purchase price as calculated in Part V, Section 711.05.B.3;

- purchasing the Mortgage Loan in the Lender’s own name (or the name of an affiliate as indicated on the approved SWAT), and thereafter consummating the Note Sale with the third-party Note purchaser;

- within five Business Days following receipt from the Lender of the purchase price together with an original assignment of the Mortgage Loan, in recordable form, Fannie Mae will execute and return the original assignment, together with:

  - the original Note endorsed, without recourse,
representation or warranty, to the Lender (or its affiliate);
- the original Mortgage Loan file; and
- such other documents as necessary to fully assign, without recourse, representation or warranty, Fannie Mae’s interest in the Mortgage Loan to Lender (or its affiliate); and

- all documents delivered to Fannie Mae for execution shall be pursuant to Part V, Chapter 4: Asset Management: Loan Document Administration, Section 404.01: Submission of Documents to Fannie Mae.

2. Purchase Simultaneously with Consummation of the Note Sale with the Third-Party Note Purchaser

The Lender may purchase the Non-Performing Secondary Risk Mortgage Loan from Fannie Mae simultaneously with its consummation of the Note Sale by:

- indicating such election on the initial SWAT or updated SWAT, received by Fannie Mae no later than 30 calendar days before the proposed purchase date, that Lender has elected to purchase the Mortgage Loan simultaneously with the Note Sale closing and identifying the anticipated purchase date;

- no later than 10 Business Days prior to the purchase date, prepare and deliver to Fannie Mae an original assignment of the Mortgage Loan, in recordable form, and an escrow instruction letter as provided below. Fannie Mae will execute and deliver to an agreed-upon escrow agent, pursuant to the escrow instruction letter, the original assignment, together with:
  - the original Note endorsed, without recourse, representation or warranty, to the Lender (or its affiliate);
  - the original Mortgage Loan file; and
  - such other documents as necessary to fully assign, without recourse, representation or warranty, Fannie Mae’s interest in the Mortgage Loan to Lender (or its affiliate). Such escrow instruction letter must contain instructions that require the escrow agent, within five Business Days following the closing of the Note Sale, to either (a) deliver the original assignment and other required documentation to Lender upon Fannie Mae’s confirmation of receipt of the purchase price, or (b) return the original assignment and all other documentation to Fannie Mae;

- all documents delivered to Fannie Mae for execution shall be pursuant to Part V, Chapter 4: Asset Management: Loan
Document Administration, Section 404.01: Submission of Documents to Fannie Mae;

- on the date of closing of the Note Sale with the third-party purchaser, the Lender will purchase the Mortgage Loan from Fannie Mae at the purchase price as calculated in Part V, Section 711.05.B.3;

- the Lender purchases the Mortgage Loan in its own name (or in the name of an affiliate as indicated on the approved SWAT), and thereafter simultaneously closes the Note Sale with the third-party purchaser; and

- the assignment of the Mortgage Loan from Fannie Mae must be filed of record prior to the recording of the assignment from the Lender (or its affiliate) to the third-party purchaser of the Note.

**711.06E**  Discounted Loan Payoff - Secondary Risk Mortgage Loans

For Non-Performing Secondary Risk Mortgage Loans, the selection of a Discounted Loan Payoff as the Course of Action must be included in the SWAT submitted to Fannie Mae for approval. The approved Discounted Loan Payoff amount will be the Asset Value for purposes of determining the reduction in the Lender’s recourse obligation.

If a Discounted Loan Payoff is the approved Course of Action for a Non-Performing Secondary Risk Mortgage Loan, the Lender shall implement the Course of Action by:

- indicating in the initial SWAT, or updated SWAT received by Fannie Mae no later than 10 Business Days before the proposed payoff date, that Lender has elected such Course of Action and identifying the anticipated payoff date;

- delivering to Fannie Mae on the identified payoff date the payoff amount as calculated in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.02C: Purchase Price for Mortgage Loans; and

- the Lender must follow the post-payoff actions as described in Part V, Chapter 2: Reporting and Remitting, Section 215: Post-Payoff Actions.

**Section 712**  Dual Track Approach
The Dual Track Approach and other requirements of this Part V, Section 712 apply to all Non-Performing Primary Risk Mortgage Loans and Non-Performing Secondary Risk Mortgage Loans.

For Secondary Risk Mortgage Loans, the Special Servicer must follow the Dual Track Approach as outlined here, unless revised by an approved SWAT. Unless the Lender has previously elected either the Lender Purchase or Lender Workout Course of Action, the Dual Track Approach (including the foreclosure process) must be immediately commenced by the Special Servicer following the transfer of the Non-Performing Mortgage Loan to the Special Servicer for default resolution.

712.01 Dual Track Approach Generally

The most effective and efficient approach to resolving a Non-Performing Mortgage Loan requires pursuing dual tracks concurrently:

- dialogue with the Borrower; and
- foreclosure process.

To be effective, both tracks of the Dual Track Approach must be pursued aggressively to ensure the Borrower understands the gravity of its default. The Dual Track Approach must be implemented immediately for all reported defaults, regardless of the Special Servicer's subsequent election of remedy to resolve the default. While the Dual Track Approach is described in detail in this Chapter, the default resolution process remains a case-specific process and not every case will fit perfectly into this approach.

712.02 Waiver of Dual Track Approach

For Secondary Risk Mortgage Loans, exceptions to the Dual Track Approach require a written waiver from Fannie Mae Special Asset Management, in the approved SWAT submitted pursuant to Part V, Chapter 7: Non-Performing Mortgage Loans, Section 705.01: Funding Capital Repairs During Default Resolution. If the outside counsel determines that a waiver to the Dual Track Approach is required by local law or if the Special Servicer determines that a waiver will result in more effective resolution of the default, then the Special Servicer must submit a written waiver request to Fannie Mae Special Asset Management in the SWAT, providing the reasoning for the waiver.
Track One: Dialogue with the Borrower

Purpose of Track One

Track one involves maintaining a dialogue with the Borrower during calendar days two (2) through 60, beginning immediately after the initial Payment Default or discovery of a non-monetary default that may become a Performance Default if not timely cured. When there is a default under a Mortgage Loan, it is absolutely essential that the Servicer immediately contact the Borrower to determine the cause of the default and to begin discussion on how the default will be cured. Until the Non-Performing Mortgage Loan is transferred to special servicing, the Servicer must maintain a dialogue with the Borrower and Fannie Mae Special Asset Management about an acceptable resolution of the Mortgage Loan’s default.

The first 30 calendar days of the Dialogue Track are focused on working with the Borrower to collect all sums due and owing or curing any possible Performance Default. While calendar days 31 through 60 continue to focus on collections or curing the default, the focus also includes preparing a Non-Performing Mortgage Loan for default resolution.

First 30 Calendar Days after a Default

During this stage of the Dialogue Track, a Servicer must act quickly and aggressively to establish contact with the Borrower to determine:

- the cause of the Performance Default or Payment Default;
- whether the Borrower will cure the Performance Default within the prescribed cure period or the Payment Default prior to the end of the month in which the missed payment occurred;
- the likelihood of the Borrower making the next month’s payment; and
- if the missed payment will not be made, whether the Borrower will voluntarily turn over the monthly net operating income of the Property.

Because Fannie Mae requires Servicers to report all delinquent Mortgage Loans as of the 17th day of the month, Servicers must begin calling and corresponding with delinquent Borrowers as early as a few days after the Payment Due Date or the day before the Late Fee becomes due. These practices facilitate accurate and timely delinquency reporting to Fannie Mae. Waiting until the Late Fee becomes due to begin contacting delinquent Borrowers jeopardizes the Servicer’s ability to report and certify delinquent Mortgage Loans on a timely and complete basis.

Calendar Days 31 through 60 after a Payment Default or Performance Default
1. Primary Risk Mortgage Loans

During calendar days 31 through 60 after a Payment Default or Performance Default, or until the Non-Performing Primary Risk Mortgage Loan is transferred to Fannie Mae Special Asset Management as provided in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 707.01: Transfer to Special Servicing, the Servicer must remain focused on aggressively pursuing the Borrower to collect all amounts due or assure a cure of the Performance Default. The Servicer must continue to call and correspond with the Borrower and make every attempt to resolve the Payment Default or Performance Default.

2. Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, Fannie Mae expects aggressive communication with the Borrower to attempt to resolve the Payment Default or Performance Default quickly, before the need to transfer the Non-Performing Mortgage Loan to its special servicing to prepare the SWAT.

712.03D Cessation of Dialogue with the Borrower

1. Cessation of Negotiations with the Borrower

Continuing an open dialogue with the Borrower is premised on the Borrower providing documentation necessary to complete:

- the Servicing Transfer Memo for Primary Risk Mortgage Loans;
- or
- the SWAT for Secondary Risk Mortgage Loans.

It is expected that the Borrower will account for and remit the monthly net operating income from the Property to the Servicer. If the Borrower is not willing to account for and remit the monthly net operating income to the Servicer, then further negotiations with the Borrower must cease immediately.

2. Primary Risk Mortgage Loans

Upon transfer of the Primary Risk Mortgage Loan to Fannie Mae Special Asset Management, the Servicer must cease any further dialogue or correspondence with the Borrower regarding the status of the Non-Performing Mortgage Loan or the Borrower’s efforts to cure the default. If the Servicer must engage in further discussions with the Borrower, a representative of Fannie Mae Special Asset Management must be included in the discussions.

3. Secondary Risk Mortgage Loans

Upon transfer of the Secondary Risk Mortgage Loan to the Servicer’s special servicing unit, the Servicer must document any further
dialogue or correspondence with the Borrower regarding the status of the Non-Performing Mortgage Loan or the Borrower's efforts to cure the default in its SWAT.

712.04 Track Two: Foreclosure Process

712.04A The Foreclosure Process

1. Generally

Track two involves initiating the foreclosure process. Experience has shown that if the foreclosure process is delayed until the parties know whether a workout is achievable or an alternative Course of Action is preferred, valuable time is lost. Initiating the foreclosure process has the added benefit of keeping the parties focused on the problem. This overall approach necessarily requires:

- more formal communication with the Borrower; and
- use of outside counsel to document the relationship.

While relationships do not have to be hostile, the Special Servicer’s relationship with the Borrower must be based with a view toward loss mitigation. If the Non-Performing Mortgage Loan is non-recourse to the Borrower, immediate action is necessary to ensure that the Property is not allowed to deteriorate and that net operating income is accounted for and paid each month. Depending on the jurisdiction, the monthly net operating income (gross monthly income after payment of ordinary and customary operating expenses – exclusive of capital expenditures, repairs, or payments to Borrower’s affiliates) should be paid directly to the Servicer for remittance to Fannie Mae or held by a receiver until the delinquency is resolved.

2. Engagement of Counsel

The foreclosure process begins with the engagement of outside counsel in the Property jurisdiction as provided in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 710: Engagement of Legal Counsel; however, some of the preliminary notices prior to foreclosure (for example, notice of default, intent to accelerate, or acceleration) may be prepared by the Special Servicer's in-house counsel. Generally, the Special Servicer will direct outside counsel to:

- send or cause to be sent to the Borrower a formal written notice of default or other preliminary notices required prior to foreclosure;
- take immediate action to get control of the net operating income; and
- commence foreclosure.
Outside counsel must furnish the Special Servicer with copies of all documents that are sent to the Borrower or filed with a court (with copies to the Servicer on Primary Risk Mortgage Loans, and to Fannie Mae on Secondary Risk Mortgage Loans) in connection with the foreclosure and any related bankruptcy or other litigation, so that all parties may stay apprised of the status of the foreclosure.

3. Appraisal

If an Appraisal is required as part of the foreclosure process or any related bankruptcy or litigation, the Special Servicer will engage the appraiser using the Form Letter of Engagement for Appraiser (Form 4814). If the Special Servicer determines that the Appraisal should be covered by the attorney-client privilege and kept confidential, the Special Servicer should request either outside counsel or its in-house counsel to send the Engagement Letter for Appraiser. Prior to engaging the appraiser under the attorney-client privilege, the Special Servicer should confirm with outside counsel whether the privilege is likely to apply and what, if any, additional steps would be required to better ensure the protection of the attorney-client privilege. For Secondary Risk Mortgage Loans, if the Special Servicer elects to change the instructions to the appraiser, such request must be included in the SWAT. The cost for this Appraisal is a Delinquency Resolution Cost.

4. Postponement of Foreclosure Sale

Because a foreclosure sale may be postponed due to an impending workout or other alternative Course of Action, or a bankruptcy or other litigation, the Special Servicer must notify outside counsel to confirm the foreclosure sale prior to the scheduled foreclosure date. If the foreclosure sale is to be postponed, the Special Servicer will provide outside counsel with a new sale date, place, and time of the sale.

712.04B REO Management

1. Maximization of Value of REO

Following foreclosure or other acquisition of title to the Property, the Special Servicer must diligently attempt to maximize the value of any REO acquired with an objective of ensuring that the physical and economic occupancy of the REO is at or above that of comparable property located in the same market as the REO.

2. “Walk Through” Report

To maximize the value of an REO, the Special Servicer must prepare a “walk-through” report detailing the rental status and condition of each unit with recommendations for repair and cost estimates for such repair. (With respect to individual units in a cooperative property, the Special Servicer will not be required to inspect any unit that is not sponsor-owned, vacant, or otherwise permitted to be inspected pursuant to applicable Loan Documents.) This report will be the basis for a management and marketing
plan to be prepared by the Special Servicer (for Secondary Risk Mortgage Loans, this will be part of a SWAT submission).

3. Management and Market Plan

The management and marketing plan must include, at a minimum:

- staffing requirements;
- policies regarding tenant applications;
- due diligence;
- credit and previous history;
- late charges;
- returned checks;
- collection of delinquent rents;
- advertising;
- maintenance procedures;
- security deposits;
- rental collections and make-ready procedures;
- comparable rental data;
- information regarding target markets;
- tenant profiles and updated reports when necessary; and
- plans for repairing and restoring the REO to marketable condition, with improvements carefully underwritten to avoid over-improvements to the REO in comparison with similar property in the same market as that in which the REO is located.


It is expected that under ordinary circumstances, the time frame for maximizing the value must not exceed more than six (6) months from the date of acquisition of title to the REO.

The "walk-through" report and management and marketing plan must be in writing and part of the Special Servicer's Servicing File. The report and plan must be completed within one (1) month after the date of acquisition of title to the REO and become a part of Fannie Mae's files for Primary Risk Mortgage Loans or contained in a SWAT submitted with respect to a Secondary Risk Mortgage Loan. The Special Servicer must manage and dispose of the REO in accordance with such management and marketing plan. The REO management and marketing plan must be updated as changed circumstances require and, if a Secondary Risk
Mortgage Loan, resubmitted to Fannie Mae as an updated SWAT, either upon the earlier of:

- as new information is available to the Special Servicer as to the management or marketing of the REO; or
- every six (6) months.

712.05 Description of Contractual Relationships

712.05A Two Contractual Relationships

In resolving delinquencies, two distinct and separate contractual relationships are involved, as follows:

- One is the Borrower/noteholder (Fannie Mae) relationship evidenced by the Loan Documents.
- The other is the Fannie Mae/Lender relationship evidenced by the Lender’s Contract and the Guide.

When the Borrower is in default on the Mortgage Loan, the Borrower is in default under its contractual relationship with Fannie Mae as the noteholder. The Lender’s Delinquency Advance of the scheduled Mortgage Loan payments is based on the Lender’s Contract with Fannie Mae and does not cure any default under the Mortgage Loan nor advance the LPI date. The difference between the actual payment made by the Borrower and the scheduled payment made by the Lender is part of the final settlement of loss that is governed by the Lender’s Contract.

712.05B No Disclosure of Lender’s Contract Terms to Borrower; Borrower Not a Third-Party Beneficiary of Lender Contract

Neither the Lender nor the Servicer (if not the same) must discuss the Fannie Mae/Lender contractual relationship with the Borrower. If the Borrower does not make a payment, regardless of whether the Lender makes a Delinquency Advance of the scheduled payment to Fannie Mae as part of its contractual obligation, the Mortgage Loan must be reported as delinquent by the Servicer and Fannie Mae’s records will reflect the Mortgage Loan as delinquent. The Borrower is not a party to, nor a beneficiary of, the Lender’s Contract between Fannie Mae and the Lender. The Lender’s obligation to make Delinquency Advances to Fannie Mae has no impact on the Borrower’s obligation to make its payments under the terms of the Note.

712.05C Primary Risk Mortgage Loans

Because the Lender does not retain an interest in the Mortgage Loan after selling the Mortgage Loan to Fannie Mae, for Primary Risk
Mortgage Loans the Lender does not have the authority to take any actions that may impair Fannie Mae's rights or remedies, without Fannie Mae's prior written approval, including, but not limited to:

- making representations on behalf of Fannie Mae;
- waiving rights or remedies of Fannie Mae under the Loan Documents;
- modifying or altering the Loan Documents; or
- voting or making elections for Fannie Mae in any bankruptcy court proceeding.

712.05D  Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, the scope of the Special Servicer's authority to take any actions on behalf of Fannie Mae shall be expressly provided in the limited power of attorney granted by Fannie Mae.

712.06  Asset Audits for Secondary Risk Mortgage Loans

712.06A  Purpose of Asset Audits

An Asset Audit involves much of the same due diligence as the Lender performs during underwriting. This "re-underwriting" is essential to determine:

- the cause of the default;
- the current financial condition of the Borrower;
- the condition of the Property;
- the current market;
- the current condition of the Property management; and
- the cost of curing the default, including sources and uses of funds.

712.06B  Personnel Performing Asset Audits

The Asset Audit must be conducted by experienced workout staff of the Servicer who are not the same personnel as those who inspected the Property and prepared any asset review for the Lender when the Mortgage Loan was originated.

712.06C  Timing of Asset Audits

Simultaneously with pursuing the Dual Track Approach, the
Servicer must submit an Asset Audit to Fannie Mae Special Asset Management within 60 calendar days after the Date of Default as part of the SWAT.

Portions of the Asset Audit may take longer than 60 days, such as an environmental assessment and a lead-based paint risk assessment for any Property built before December 31, 1978. If this is the case, all of the information available by the 60th day after the Date of Default must be given to Fannie Mae Special Asset Management. The Servicer may submit a supplement to the Asset Audit as soon as the incomplete items are received. This process will enable Fannie Mae Special Asset Management to become aware of the major issues related to the Mortgage Loan default.

If the Servicer fails to timely provide a completed Asset Audit to Fannie Mae, Fannie Mae reserves the right to perform the Asset Audit itself or through a third party and assess the Servicer for the cost of the Asset Audit.

**712.06D Content of Asset Audits**

The Asset Audit must contain, at a minimum, the following:

- a determination of whether the default was economic-related or management-related;
- an on-site inspection to determine the physical condition and occupancy-level of the Property;
- photographs of the Property, improvements, and surrounding properties;
- an income and expense analysis of the Property, including a review of rent collection performance, historical expense levels, and contributions of capital by the Borrower (or its partners, members or shareholders);
- an analysis of the Property relative to the market;
- a thorough analysis of the original underwriting file and the executed Loan Documents;
- an interview of the Key Principals or Principals of the Borrower and the Property management agent to determine the reason for the default and the likelihood and timing of a cure of the default by the Borrower;
- an assessment of the physical condition of the Property to determine whether maintenance of the Property has been deferred that would result in safety or liability concerns and the cost of necessary repairs;
- an environmental assessment, if applicable (see special requirements for environmental assessment in this Section);
■ a review of the Borrower’s payment history to determine compliance with the terms of the Note;

■ a review of the Collateral Agreements for Completion/Repair, Replacement Reserves, Achievement, and Deficit Operation and payment activity to determine whether the reserves were adequately funded and whether the Borrower attempted to maintain the Property in marketable condition;

■ a review of the tax and insurance deposits to ensure that payments are current;

■ a title insurance update or bring-down to determine whether unauthorized second mortgages or other unauthorized encumbrances exist, or unauthorized transfers have occurred;

■ a review of the ability of the Property management agent or of the ability of the Borrower to manage the Property, if owner-managed; and

■ a review of the financial capability of the Key Principals or Principals to determine if additional capital is available.

The results of the Asset Audit must be documented in a concise memorandum format for use by all those involved in the selection of a Course of Action.

### 712.06E Pre-Negotiation Letter

Attached as an exhibit to the Pre-Negotiation Form Letter (NOI and Loan Document Provisions) (Form 4811) or Pre-Negotiation Form Letter (Form 4812) is a checklist of items and documents to request from the Borrower that will assist the Servicer in conducting the Asset Audit. An Asset Audit may, in the Servicer’s discretion, be dispensed with if the Performance or Payment Default is reasonably determined to be technical in nature or readily susceptible of cure. For example, if the Payment Default results from an inadvertent administrative error in mailing the monthly payment, or if the monthly payment is lost in the mail, an Asset Audit would not be required if the Payment Default is cured within 60 days after the Date of Default. If the Payment Default is not cured within 60 days, the Asset Audit is due as soon as possible after the end of the 60-day period.

### 712.06F Special Requirements for the Environmental Assessment

#### 1. Required Statement in Asset Audit

After reviewing the environmental assessment performed at Mortgage Loan origination and conducting a current on-site inspection to review any items noted in the original assessment done at Mortgage Loan origination, the Asset Audit must contain either:
- a statement that there is no material, adverse change in the results of the Phase I ESA or Phase II ESA, if applicable, or no noncompliance with any O&M requirements; or
- a statement that there is a material, adverse change in the results of the Phase I ESA or Phase II ESA, if applicable, or noncompliance with any O&M requirements and a description thereof.

2. Asset Audit Shows Material, Adverse Change

If the Asset Audit reflects a material, adverse change in the environmental condition of the Property, the Servicer must obtain another Phase I ESA or Phase II ESA, if applicable. Even if the Asset Audit does not reflect a material, adverse change, upon review of the Asset Audit by Fannie Mae, Fannie Mae may require the Servicer to obtain another Phase I ESA or Phase II ESA.

3. Engagement of Environmental Consultant

If another environmental assessment is required to be obtained, the Servicer must engage the environmental consultant using the Form Letter of Engagement for Environmental Consultant (Form 4815) unless the Servicer determines that the new Phase I ESA or Phase II ESA should be covered by the attorney-client privilege and kept confidential. If attorney-client privilege is desired, the Servicer must request either outside counsel or its in-house counsel to send the Engagement Letter for Environmental Consultant. Prior to engaging the environmental consultant under the attorney-client privilege, the Servicer must confirm with outside counsel whether the privilege is likely to apply and what, if any, additional steps would be required to better ensure the protection of the attorney-client privilege.

4. Cost of Environmental Assessment

The cost of the environmental assessment is considered a Delinquency Resolution Cost.

### 712.07 Dual Track Timeline

This timeline is hypothetical and represents the typical time frames that should be followed for all Non-Performing Mortgage Loans. Specific defaults may require action to be taken sooner or be delayed. For example, the Borrower may have filed for bankruptcy protection and, therefore, the Dual Track timeline must be implemented on an accelerated basis or delayed basis. As provided in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 710.01: Fannie Mae Retains Legal Counsel, the default resolution process remains a case-specific process and not every case will fit perfectly into this approach and timeline; however, to the extent this Chapter or the Guide requires certain actions to be taken within a
specific time period, those specific time periods are required.

<table>
<thead>
<tr>
<th>Date</th>
<th>Track 1</th>
<th>Track 2</th>
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<tr>
<td>March 1</td>
<td>• Borrower’s Mortgage Loan payment is due. Servicer could technically</td>
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<td>send out a default notice on the 2nd; but, as a practical matter</td>
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<td>would not unless Servicer knew Borrower was not going to pay.</td>
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<td>• Or, Lender becomes aware of Borrower default in performance of its</td>
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<td>non-monetary obligations under the Mortgage Loan.</td>
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<td>March 2 -</td>
<td>• Servicer calls Borrower to find out cause of missed payment or</td>
<td>The Servicer may contact Fannie Mae Special Asset Management or its</td>
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<td>31</td>
<td>default and whether default will be cured by the end of the month or if</td>
<td>Fannie Mae Representative at any time prior to charging the Late Fee</td>
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<td>default will continue into the 2nd month [April].</td>
<td>to discuss default resolution and whether the Borrower will be able to</td>
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<td>• If non-monetary default requires notice to Borrower to begin cure</td>
<td>cure the default. The recommendation of an early transfer to Special</td>
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<td>time, Servicer sends written notice of default to Borrower.</td>
<td>Servicing may be discussed.</td>
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<td>March 11</td>
<td>If payment is not received, Borrower is subject to a Late Fees.</td>
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<td>(or day when</td>
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<td>Late Fee can</td>
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<td>be assessed)</td>
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<td>Date</td>
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<tr>
<td>March 11 (or day after</td>
<td>If no payment is received, then, under Servicer's letterhead, send out Multifamily No Payment Received Letter Fees (Optional) Assessed ((\text{Form 4807})).</td>
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<td>Late Fee can be assessed)</td>
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<td></td>
<td>If full payment received after Late Fee can be assessed, under Servicer's letterhead, send out Multifamily Late Payment Letter Fees (Optional) Assessed ((\text{Form 4805})).</td>
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<td></td>
<td>If partial payment received after Late Fee is incurred, under Servicer's letterhead, send out Multifamily Partial Payment Letter Fees (Optional) Assessed ((\text{Form 4806})).</td>
<td></td>
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<tr>
<td>March 17</td>
<td>Servicer reports status of defaulted Mortgage Loans via Multifamily Delinquency System and certifies that all Non-Performing Mortgage Loans have been reported.</td>
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<td>Before meeting with Borrower to discuss a potential workout, have Pre-Negotiation Form Letter (NOI and Loan Document Provisions) ((\text{Form 4811})) or Pre-Negotiation Form Letter ((\text{Form 4812})) executed by Borrower, Servicer, Fannie Mae or Lender.</td>
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<td>Date</td>
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<tr>
<td>March 18 - 31</td>
<td>If Primary Risk, the Mortgage Loan will be special serviced by Fannie Mae. If Secondary Risk, the Servicer will perform the special servicing.</td>
<td></td>
</tr>
<tr>
<td>March 31</td>
<td>If full payment is not received by end of month, and if permitted by the Mortgage Loan documents, default interest starts and is imposed from the Date of Default [March 1].</td>
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<tr>
<td>April 1</td>
<td>Borrower's next Mortgage Loan payment is due.</td>
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<tr>
<td>April 1 - 30</td>
<td>Servicer continues dialogue with Borrower to assess whether default will be cured by end of month or if default will continue into the 3rd month [May].</td>
<td>Fannie Mae remains in contact with the Servicer to discuss collection efforts and whether the Borrower will be able to cure the default. The recommendation of an immediate transfer to Special Servicing may be discussed.</td>
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<tr>
<td>April 15</td>
<td>Due diligence begins for Servicing Transfer Memo/SWAT; will likely involve meeting with Borrower to obtain factual information and documents.</td>
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<td>Date</td>
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<tr>
<td>April 10 - 30</td>
<td>For Primary Risk Mortgage Loans Servicer completes Servicing Transfer Memo and forwards to Fannie Mae Special Asset Management. Fannie Mae Special Asset Management and Servicer complete Asset Review.</td>
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<td>For Secondary Risk Mortgage Loans Servicer completes SWAT and forwards to Fannie Mae Top Loss Special Asset Management.</td>
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<td>An Asset Audit should be completed and forwarded to Fannie Mae Top Loss Special Asset Management if the Course of Action selected on the SWAT is Foreclosure.</td>
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<tr>
<td>May 1</td>
<td>If payment is not received, Engagement of Counsel Letter is executed.</td>
<td>Once legal counsel is engaged, all written correspondence with Borrower must be from legal counsel.</td>
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<td>Date</td>
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<tr>
<td>May and</td>
<td>For Primary Risk Mortgages, Fannie Mae will select Course of Action,</td>
<td>Legal counsel starts process to enforce assignment of rents and begins</td>
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<tr>
<td>June</td>
<td>unless Lender elects a Lender Purchase or Lender Workout. For</td>
<td>foreclosure process.</td>
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<td>Secondary Risk Mortgages, Servicer will select Course of Action in</td>
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<td>accordance with the approved SWAT.</td>
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<td>Election of remedies implemented.</td>
<td>Primary Risk Mortgage Loans: Foreclosure action continues regardless of</td>
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<td>Course of Action unless Joint Workout is elected by Fannie Mae and</td>
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<td>Lender. In that case foreclosure sale would be rescheduled until</td>
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<td>workout is completed (subject to applicable law).</td>
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<td>Secondary Risk Mortgage Loans: SWAT is approved and unless a Joint</td>
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<td>Workout is approved, the Foreclosure action continues. The Lender</td>
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<td>purchases the Secondary Risk Mortgage Loan from Fannie Mae either</td>
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<td>prior to or immediately following the foreclosure sale.</td>
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</table>

**Section 713** Loss Sharing and the Appraisal Process in connection with a Foreclosure Event

**713.01** General

**713.01A** Appraisal Required; Defined Terms

An Appraisal of the Property is required in connection with any
Foreclosure Event for a Mortgage Loan that is subject to Loss Sharing. Capitalized terms in this Section not otherwise defined in the Glossary, shall have the meanings ascribed to them in the Loss Sharing Addendum. In the event of a conflict between the Loss Sharing Addendum and the Guide, the Loss Sharing Addendum will control.

**713.01B Compliance with Loss Sharing Addendum**

Each Appraisal must comply with the requirements of the Guide and the Loss Sharing Addendum. As used in this Section with regard to any required Appraisal, a “manifest error of fact” refers solely to a factual error or omission by the appraiser (such as a math error or an inaccurate reference to the county or other jurisdiction of the Property location), and not to any disagreement with the appraiser’s discretionary decisions or determinations (such as the appraiser’s use of a particular capitalization rate, comparable properties, or market adjustments).

**713.01C Approved Appraisers**

Each appraiser engaged to prepare an Appraisal pursuant to this Section must be approved by Fannie Mae. Periodically, the Lender must submit the names and, if requested by Fannie Mae, qualifications of its preferred appraisers to Fannie Mae for approval. Fannie Mae and the Lender each will maintain a current list of all approved appraisers who may provide an Appraisal under this Section.

**713.01D Appraisal Requirements**

The following applies to any Appraisal obtained pursuant to this Section.

- Each Appraisal and appraiser must comply with Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation.

- The Lender must provide the Appraiser Engagement Instruction Form (Form 4825) when engaging an appraiser to perform an initial Appraisal.

- Fannie Mae will use Engagement Letter for Appraiser (Form 4823 or Form 4826) or Engagement Letter for Review Appraiser (Form 4824) to engage an appraiser performing an initial Appraisal or a subsequent Appraisal (as applicable).

- All communication with a jointly engaged appraiser regarding the valuation of the Property must include joint participation by members of the appraisal review groups from both Fannie Mae and the Lender.

- If the Property has unused Low-Income Housing Tax Credits or
other tax credits that transferred to Fannie Mae as a result of a Foreclosure Event, the Asset Value as of the Asset Valuation Date will be the greater of (i) the value of the Property "as restricted", plus the value of the unused tax credits, or (ii) the "as-is" market value of the Property. Fannie Mae and the Lender will engage either the appraiser or another third party to value such unused tax credits.

- Both Fannie Mae and the Lender must use an independent appraisal review group to allow appropriate communication with the appraisers, and to ensure consistent valuation practices and quality control. The appraisal review group may be either:
  - employees of Fannie Mae or the Lender, such as multifamily mortgage underwriters, who are not required to hold state appraisal licenses or certifications, but who are independent from their employers’ asset management and special servicing functions; or
  - an independent third-party appraisal firm.

- Fannie Mae and the Lender will provide to each engaged appraiser the most recent of the Property’s engineering, environmental, and Property Condition Assessment reports; each of which will be obtained jointly using the standard Engagement Letter for Engineering Consultant (Form 4821) or Engagement Letter for Environmental Consultant (Form 4822).

- If the Foreclosure Event is delayed, or if the Asset Valuation Date is not within 90 days after the date of the Appraisal that determines the Asset Value for Loss Sharing, either Fannie Mae or the Lender may require that the Appraisal be updated to reflect the Property’s value as of the Asset Valuation Date. Any Property Condition Assessment or Phase I Environmental Site Assessment used for the first Appraisal may be updated if either Fannie Mae or the Lender requires the Appraisal to be updated.

Following the receipt by the Lender of the Appraisal Notice referred to in this Section, if the Lender fails to cause an Appraisal to be conducted in accordance with the applicable timeline for the Single Appraisal Approach or the Dual Appraisal Approach, the Property’s Appraised Value will be determined exclusively by an appraiser selected by Fannie Mae, and the Lender will be deemed to have waived any right to challenge such valuation. Updates required due to material changes in market or Property conditions, including, but not limited to, changes in access and control of the Property, will be addressed on a case by case basis.

Nothing shall prohibit Fannie Mae from ordering its own Appraisal, Property Condition Assessment, or Phase I Environmental Site Assessment
in conjunction with its activities as the Special Servicer for the Mortgage Loan (e.g., for litigation contesting the Property’s Appraised Value, to determine foreclosure bidding strategy, in connection with a Borrower’s bankruptcy action, or other similar needs). However, any Appraisal, Property Condition Assessment, or Phase I Environmental Site Assessment obtained to determine the Asset Value must be obtained in accordance with this Section.

713.01E Appraisal Notice and Election of Appraisal Methodology

If an Appraisal is required to determine the Property’s Asset Value for any reason, including the commencement of the process described in Part V, Chapter 7: Non-Performing Mortgage Loans in connection with a Foreclosure Event, Fannie Mae will notify the Lender (the “Appraisal Notice”).

Within 4 Business Days after receipt of the Appraisal Notice from Fannie Mae, the Lender must elect, by written notice (e.g., e-mail) to its Fannie Mae Representative in Special Asset Management, to use either the Single Appraisal Approach or the Dual Appraisal Approach. Once made, the Lender’s election will be binding on the Lender and Fannie Mae with respect to that Property and Mortgage Loan, and may not be changed unless mutually agreed upon in writing.

If the Lender fails to elect an Appraisal approach within the allotted time period, the Single Appraisal Approach will be used. However, if the Lender elects the Single Appraisal Approach, and Fannie Mae and the Lender are unable to jointly select and engage an appraiser as required by this Section, the Dual Appraisal Approach will be used.

713.02 Single Appraisal Approach

This Section outlines the recommended timeline and process to obtain an Appraisal using the Single Appraisal Approach, as further described in the Loss Sharing Addendum. Several variables may alter this timeline; however, the objective is to obtain a final Appraised Value as of the Asset Valuation Date.

713.02A Single Appraisal Approach Timeline

1. Fannie Mae will order any required Property Condition Assessment or Phase I Environmental Site Assessment within 4 Business Days after the Appraisal Notice, using the Engagement Letter for Engineering Consultant (Form 4821) or the Engagement Letter for Environmental Consultant (Form 4822).

2. The Lender will submit to Fannie Mae a short list of 2 or 3 preferred appraisers from the Lender’s list of approved
appraisers.

3. Fannie Mae will select an appraiser from the Lender’s short list within 8 Business Days after its Appraisal Notice, and the appraiser will be engaged jointly by Fannie Mae and the Lender pursuant to the standard Engagement Letter for Appraiser (Joint Engagement) (Form 4823). Fannie Mae and the Lender will provide the appraiser with all appropriate information reasonably required to complete the Appraisal in a timely fashion.

4. The appraiser should be instructed to deliver the draft Appraisal within 20 Business Days after engagement.

713.02B Draft Appraisal Review

1. Fannie Mae and the Lender will each complete a review of the draft Appraisal within 10 Business Days after receipt. A joint conference call may be held with the appraiser, if requested by either Fannie Mae or the Lender. If either Fannie Mae or the Lender determines it is necessary, review comments and pertinent factual information will be provided to the appraiser and the other party. The joint conversation and information delivery are expected to occur within 15 Business Days after receipt of the draft Appraisal.

2. The appraiser should be instructed to deliver the revised draft Appraisal within 5 Business Days of receipt of comments and information.

3. Fannie Mae and the Lender will each complete a review of the revised draft Appraisal within 5 Business Days after receipt.

713.02C Acceptable Draft Appraisal

If the draft Appraisal is acceptable to both Fannie Mae and the Lender, the draft Appraisal will be finalized and the final Appraised Value will be the Asset Value. Prior to issuing the final Appraisal, the appraiser may address any factual errors or other issues that both parties agree should not materially impact the Appraised Value. The appraiser will be expected to deliver the final Appraisal within 5 Business Days of the request for the final Appraisal.

713.02D Non-Acceptable Draft Approach

1. If either Fannie Mae or the Lender does not accept the draft Appraisal and believes that discussions with the appraiser would not result in an acceptable Appraisal, notice will be given
to the other party that the Appraisal is unacceptable. Within 8 Business Days after either party receives such notice:

- a second appraiser will be selected by Fannie Mae from the Lender’s list of approved appraisers;
- the second appraiser will be engaged jointly by Fannie Mae and the Lender pursuant to the standard Engagement Letter For Review Appraiser (Joint Retention) (Form 4824); and
- the first Appraisal, written comments by Fannie Mae and the Lender (if any), and pertinent Property information will be shared with the second appraiser.

2. The second appraiser will examine the first Appraisal, and then initiate a joint call with representatives of Fannie Mae and the Lender within 10 Business Days after delivery of the first Appraisal and supplemental information.

3. The second appraiser will develop an independent opinion of the Asset Value as of the Asset Valuation Date, and prepare an Appraisal consistent with the Engagement Letter for Review Appraiser (Joint Retention) (Form 4824). The second appraiser should be instructed to deliver the Appraisal within 15 Business Days after the joint conference call.

4. The second Appraisal will be accepted, and the Appraised Value will be the Asset Value for Loss Sharing, without further review or consent by either Fannie Mae or the Lender, unless there is a manifest error of fact in the second Appraisal.

5. If either Fannie Mae or the Lender determines that the second appraiser has made a manifest error of fact, the correct factual information will be provided to the appraiser and the other party within 10 Business Days after receiving the second Appraisal.

6. The second appraiser will be expected to deliver a corrected final Appraisal within 5 Business Days after being advised of a manifest error of fact in the second Appraisal.

7. The corrected final Appraisal will be accepted, and the final Appraised Value will be the Asset Value for Loss Sharing, without further review or consent by either Fannie Mae or the Lender.

### 713.03 Dual Appraisal Approach

This Section outlines the recommended timeline and process to obtain an Appraisal using the Dual Appraisal Approach, as further described in the Loss Sharing Addendum. Several variables may alter this timeline;
however, the objective is to obtain a final Appraised Value as of the Asset Valuation Date.

713.03A Dual Appraisal Approach Timeline

1. Fannie Mae will order any required Property Condition Assessment or Phase I Environmental Site Assessment within 4 Business Days after the Appraisal Notice, using the Engagement Letter for Engineering Consultant (Form 4821) or the Engagement Letter for Environmental Consultant (Form 4822).

2. The Lender and Fannie Mae will each select and engage an appraiser from their individual lists of approved appraisers within 8 Business Days after the Appraisal Notice. The Lender will engage its appraiser pursuant to the standard Appraiser Engagement Instruction Form (Form 4825), and Fannie Mae will engage its appraiser pursuant to the standard Appraiser Engagement Letter for Appraiser (Fannie Mae Retention) (Form 4826).

3. Each appraiser should be instructed to deliver a final Appraisal within 35 Business Days after both appraisers have been engaged. Fannie Mae and the Lender will share copies of their respective final Appraisals with each other.

713.03B Average of Appraised Values

If the 2 Appraised Values differ by 10% or less, the average of the 2 Appraised Values will be the Asset Value for Loss Sharing.

713.03C Third Appraisal

1. If the 2 Appraised Values differ by more than 10%, within 4 Business Days after receipt of the final Appraisals:
   - a third appraiser will be selected by Fannie Mae from the Lender’s list of approved appraisers;
   - the third appraiser will be engaged jointly by Fannie Mae and the Lender pursuant to the standard Engagement Letter for Review Appraiser (Joint Retention) (Form 4824); and
   - the first 2 Appraisals, written comments by Fannie Mae and the Lender (if any), and pertinent Property information will be shared with the third appraiser.

2. The third appraiser will initiate a joint conference call with
representatives from Fannie Mae and the Lender to discuss the first 2 Appraisals within 10 Business Days after delivery of the first 2 Appraisals and Fannie Mae’s and the Lender’s comments.

3. The third appraiser will develop an independent opinion of the Asset Value as of the Asset Valuation Date, and prepare an Appraisal consistent with the Engagement Letter for Review Appraiser (Joint Retention) (Form 4824). The third appraiser should be instructed to deliver the Appraisal within 15 Business Days after the joint conference call.

4. The third Appraisal will be accepted and the Appraised Value will be the Asset Value for Loss Sharing, without further review or consent by either Fannie Mae or the Lender, unless there is a manifest error of fact in the third Appraisal.

5. If either Fannie Mae or the Lender determines that the third appraiser has made a manifest error of fact in its Appraisal, the correct factual information will be provided to the third appraiser and the other party within 10 Business Days after receiving the third Appraisal.

6. The third appraiser will be expected to deliver a corrected final Appraisal within 5 Business Days after being advised of a manifest error of fact.

7. The corrected final Appraisal will be accepted, and the final Appraised Value will be the Asset Value for Loss Sharing, without further review or consent by either Fannie Mae or the Lender.
Chapter 8  In Place Loans
Section 801  Eligibility

Requirements

A Portfolio Mortgage Loan is eligible to be refinanced with an In Place Loan if the Property:

- operations were stable or trended positively during the 12 months before refinancing; and
- complies with the Guide other than meeting the Tier 2 underwriting requirements.

Guidance

To refinance a Portfolio Mortgage Loan with an In Place Loan:

<table>
<thead>
<tr>
<th>Topic</th>
<th>Should...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio Mortgage</td>
<td>Have a timely payment history during the 12 months before refinance.</td>
</tr>
<tr>
<td>Loan</td>
<td></td>
</tr>
<tr>
<td>Borrower</td>
<td>• Have a satisfactory relationship with Fannie Mae.</td>
</tr>
<tr>
<td></td>
<td>• Not be able to refinance the Portfolio Mortgage Loan on commercially</td>
</tr>
<tr>
<td></td>
<td>viable terms outside Fannie Mae.</td>
</tr>
<tr>
<td></td>
<td>• Not have had any unauthorized transfers or changes of ownership interest.</td>
</tr>
<tr>
<td>Property</td>
<td>• Have a</td>
</tr>
<tr>
<td></td>
<td>- most recent Property condition rating of 1, 2, or 3 per Part II,</td>
</tr>
<tr>
<td></td>
<td>Chapter 4: Inspections and Reserves, Section 401: Site Inspection and</td>
</tr>
<tr>
<td></td>
<td>Lease Audit, or</td>
</tr>
<tr>
<td></td>
<td>- special exception from Fannie Mae.</td>
</tr>
<tr>
<td></td>
<td>• Only require repairs that can reasonably be made with refinancing</td>
</tr>
<tr>
<td></td>
<td>proceeds.</td>
</tr>
<tr>
<td></td>
<td>• Have no unauthorized Liens.</td>
</tr>
<tr>
<td>Topic</td>
<td>Should...</td>
</tr>
<tr>
<td>-------</td>
<td>----------</td>
</tr>
</tbody>
</table>
| You   | • Have loss sharing on the Portfolio Mortgage Loan.  
       | • Document in the Transaction Approval Memo that refinancing will  
       |     - reduce the Portfolio Mortgage Loan's credit risk, and  
       |     - not merely delay a foreclosure that may increase losses. |

Fannie Mae may also require:

- Property improvements to increase cash flow;
- Property management changes;
- increased Replacement Reserves; or
- other risk-mitigating terms.

**Section 802 Representations**

Requirements

Unless modified by this Chapter, you must provide the same selling and servicing representations and warranties required for a newly originated Mortgage Loan.
### Glossary

#### 3

30-Day Average SOFR
Compounded average of SOFR over a specified interest period of 30 days.

#### A

ACH
Electronic Automated Clearing House network for processing U.S. banking transactions.

**Synonyms**
- Automated Clearing House

ACheck
Lender due diligence performed for the Borrower, Key Principal, and Principal using the ACheck application.

**Synonyms**
- Applicant Experience Check

Achievement Agreement
Agreement requiring the Borrower to provide a letter of credit, cash, or guaranty as additional collateral to support the Mortgage Loan amount and specifying the terms for releasing the collateral.

**Synonyms**
- Achievement Agreements

Achievement Letter of Credit
Letter of Credit that is released as collateral when a certain event occurs or a requirement is met (e.g., construction completion, or minimum occupancy or EGI level reached).

**Synonyms**
- Achievement Letters of Credit
- Achievement LOC
- Achievement LOCs
Action Plan

Your report analyzing
• the Mortgage Loan and Property issues,
• your resolution strategy, and
• related actions and outcomes.

Synonyms
• Action Plans

Activities of Daily Living

For Seniors Housing Properties, support for medication management and assistance with bathing, dressing, toileting, ambulating, eating and other similar activities.

Synonyms
• ADL

Actual Cooperative Property Basis

Financial analysis or valuation of a Cooperative Property conducted based on its actual operating performance.

Actual Losses

Net dollar amount of the loss on a Mortgage Loan as calculated on the Multifamily Loss Notification Form and approved by Fannie Mae.

Additional Disclosure

Information you provide that is published as an addendum to the disclosure documents when an MBS is issued and describes special Security, Mortgage Loan, or Property characteristics or terms that differ from those described in the standard Multifamily MBS Prospectus.

Synonyms
• Additional Disclosures
• Special Disclosure
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustable Rate Mortgage Loan</td>
<td>Mortgage Loan with an interest rate that periodically adjusts based on an Index per the Note or Loan Documents.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• ARM Loan</td>
</tr>
<tr>
<td></td>
<td>• Adjustable Rate Mortgage Loans</td>
</tr>
<tr>
<td></td>
<td>• ARM Loans</td>
</tr>
<tr>
<td>Administering Agent</td>
<td>Third-party compliance monitoring company.</td>
</tr>
<tr>
<td>Affiliate</td>
<td>When referring to an affiliate of a Lender, any other Person or entity that Controls, is Controlled by, or is under common Control with, the Lender. When referring to an affiliate of a Borrower or Key Principal:</td>
</tr>
<tr>
<td></td>
<td>• any Person that owns any direct ownership interest in Borrower or Key Principal;</td>
</tr>
<tr>
<td></td>
<td>• any Person that indirectly owns, with the power to vote, 20% or more of the ownership interests in Borrower or Key Principal;</td>
</tr>
<tr>
<td></td>
<td>• any Person Controlled by, under common Control with, or which Controls, Borrower or Key Principal;</td>
</tr>
<tr>
<td></td>
<td>• any entity in which Borrower or Key Principal directly or indirectly owns, with the power to vote, 20% or more of the ownership interests in such entity; or</td>
</tr>
<tr>
<td></td>
<td>• any other individual that is related (to the third degree of consanguinity) by blood or marriage to Borrower or Key Principal.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Affiliates</td>
</tr>
<tr>
<td></td>
<td>• Affiliate's</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Affiliate-Owned Manufactured Home</td>
<td>Manufactured Home or park model home located on an MH Site that is owned by an Affiliate of the Borrower.</td>
</tr>
<tr>
<td>Affordable Regulatory Agreement</td>
<td>Regulatory, land use, extended use, or similar agreement or recorded restriction limiting rents, imposing maximum income restrictions on tenants, or placing other affordability restrictions on the use or occupancy of the Property (whether imposed by a government entity or self-imposed by a Borrower per the Sponsor-Initiated Affordability Agreement (Form 6490)).</td>
</tr>
<tr>
<td>Age-Restricted MH Community</td>
<td>MH Community that limits residents to those who are over a particular age (e.g., persons who are age 62 or older, or at least 80% of the Manufactured Homes occupied by at least 1 person who is age 55 or older).</td>
</tr>
<tr>
<td>All-Age MH Community</td>
<td>MH Community that accepts residents of any age.</td>
</tr>
<tr>
<td>Allocable Facility Amount</td>
<td>For a Credit Facility, the amount of debt allocated to a given Property, used in calculating tests for collateral activity such as releases, substitutions, and additions.</td>
</tr>
<tr>
<td>ALTA</td>
<td>American Land Title Association</td>
</tr>
</tbody>
</table>
Alzheimer’s/Dementia Care

Seniors Housing Property with units and beds for residents with significant cognitive impairment resulting from Alzheimer’s disease or other dementia, which are typically licensed and regulated by a state or local government authority.

**Synonyms**
- ALZ

Appraisal

Written statement independently and impartially prepared by a qualified appraiser stating an opinion of the market value of the Property as of a specific date, supported by the presentation and analysis of relevant market information.

**Synonyms**
- Appraisals

Appraisal Date

Effective date of value in the Appraisal.

Appraisal Notice

As defined in the Loss Sharing Addendum.

Appraised Value

Appraiser’s opinion of the market value of the Property documented in the Appraisal, on an “as is” basis, unless use of an “as completed” basis is specifically permitted by the Guide.

**Synonyms**
- Appraised Values

ASAP

Various As Soon As Pooled purchase options expediting the sale of Mortgage Loans per the applicable ASAP Contracts.

**Synonyms**
- As Soon As Pooled
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Synonyms</td>
<td>• ASAP Contracts</td>
</tr>
<tr>
<td>ASAP Options</td>
<td>ASAP Sale and ASAP Plus (including ASAP Plus POC) purchase options per Part IV, Chapter 2: Rate Lock and Committing, Section 205: ASAP Options.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• ASAP Option</td>
</tr>
<tr>
<td>ASAP Plus</td>
<td>Purchase option expediting Mortgage Loan Delivery using a 2-stage process before redelivering for purchase per the applicable ASAP Contract.</td>
</tr>
<tr>
<td>ASAP Sale</td>
<td>Purchase option where you Deliver a Mortgage Loan in exchange for cash while trading the Delivered Mortgage Loan MBS with an MBS Investor.</td>
</tr>
<tr>
<td>Asset Valuation Date</td>
<td>As defined in the Loss Sharing Addendum.</td>
</tr>
<tr>
<td>Asset Value</td>
<td>As defined in the Loss Sharing Addendum.</td>
</tr>
<tr>
<td>Assisted Living</td>
<td>Seniors Housing Property offering services limited to non-medical personal care, including ADL assistance, which are typically licensed and regulated by a state or local governmental authority.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• AL</td>
</tr>
<tr>
<td>ASTM</td>
<td>American Society for Testing Materials</td>
</tr>
</tbody>
</table>
Balloon Mortgage Loan  Mortgage Loan with periodic installments of principal and interest that do not fully amortize the Mortgage Loan, with the balance of the Mortgage Loan due in a lump sum on a specified date, usually the Maturity Date.


Bankruptcy Event  When a Person:
• is subject to bankruptcy, insolvency, or similar federal or state proceedings;
• provides written acknowledgement (except for a Mortgage Loan workout) of inability to pay maturing debts;
• makes a general assignment for the benefit of creditors;
• repudiates its obligations; or
• is supervised by a receiver, liquidator, or similar officer.

Bifurcated Mortgage Loan  Single Senior Mortgage Loan that is evidenced by 2 Notes with the same payment and collateral priority.

Synonyms
• Bifurcated Mortgage Loans

Blocked Person  Any Person who is:
• on the FHFA SCP List;
• sanctioned or blocked by OFAC; or
• identified on:
  - HUD's “Limited Denial of Participation, HUD Funding Disqualifications and Voluntary Abstentions List”; or
  - General Services Administration’s “System for Award Management (SAM) exclusion list”.

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<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Liquidity Fee Rate</td>
<td>Fee charged by the provider of a letter of credit, standby bond purchase agreement, or other arrangement providing liquidity to purchase securities (typically variable rate demand obligations), that were tendered to the Issuer but cannot be immediately remarketed to new investors, expressed as an annualized percentage.</td>
</tr>
<tr>
<td>Bond Trustee</td>
<td>Trustee for a Credit Enhancement Instrument.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Bond Trustee's</td>
</tr>
<tr>
<td>Bonds</td>
<td>Tax-exempt or taxable multifamily revenue bonds, or other tax-exempt or taxable bonds, issued to finance 1 or more Credit Enhancement Mortgage Loan Properties.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Bond</td>
</tr>
<tr>
<td>Book-Entry Date</td>
<td>Date a Security is delivered by Fannie Mae via the Federal Reserve book-entry system to the applicable Investor's designated book-entry account at a depository institution.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Book-Entry Delivery Date</td>
</tr>
<tr>
<td></td>
<td>• Settlement Date</td>
</tr>
<tr>
<td>Borrower</td>
<td>Person who is the obligor per the Note.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Borrowers</td>
</tr>
<tr>
<td></td>
<td>• Borrower's</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Borrower Commitment</strong></td>
<td>Your written commitment with the Borrower to originate a Mortgage Loan, and any separate written or oral rate lock agreements between you and the Borrower to rate lock the Mortgage Loan.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Borrower Commitments</td>
</tr>
<tr>
<td><strong>Breakage Fee</strong></td>
<td>Aggregated costs and damages owed to the Investor if you fail to Deliver the Mortgage Loan Delivery Package per the Guide.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Breakage Fees</td>
</tr>
</tbody>
</table>
| **Bulk Delivery**             | Structured Transaction governed by a Bulk Delivery Agreement that allows future:  
  • Mortgage Loan additions; and/or
  • Property substitutions.                                                     |
| **Synonyms**                  | • Bulk Deliveries                                                                                                                                                                                        |
| **Bulk Delivery Agreement**   | Agreement evidencing the terms and conditions of a Bulk Delivery.                                                                                                                                       |
| **Business Day**              | Any day other than a  
  • Saturday,  
  • Sunday,  
  • day when Fannie Mae is closed,  
  • day when the Federal Reserve Bank of New York is closed, or  
  • for any MBS and required remittance withdrawal, day when the Federal Reserve Bank is closed in the district where any of the MBS funds are held. |
| **Synonyms**                  | • Business Days                                                                                                                                                                                         |
Business Environmental Risk

Risk of material environmental or environmentally-driven impact on the business or property associated with a Property or the past, current or planned use of a Property, including all “non-scope considerations” under current ASTM E 1527, asbestos or asbestos-containing materials, radon, lead-based paint, lead in drinking water, wetlands, regulatory compliance, health and safety, indoor air quality, biological agents, mold, etc.

**Synonyms**

• Business Environmental Risks

C

Cap Strike Rate

Maximum specified Index interest rate that will trigger a payment obligation by the Interest Rate Cap provider.

Capital Markets Early Funding Desk

Team that can be contacted for ASAP funding at (866) 944-3863 or early_funding@fanniemae.com.

Captive Insurer

Insurance company wholly owned and controlled by its insureds, whose primary purpose is to insure the risks of its owners, and its insureds benefit from the captive insurer's underwriting profits.

Cash Loan Drafting Application

Multifamily application or successor system, where you review, update, and certify amounts for Fannie Mae to draft from your bank accounts via ACH for monthly P&I and payoff remittances for:

• Cash Mortgage Loans; and
• PFP Mortgage Loans.

Cash Mortgage Loan

Mortgage Loan purchased by Fannie Mae in exchange for cash.

**Synonyms**

• Cash Mortgage Loans
Cash Remittance System
Multifamily system where you set up and maintain banking instructions for Fannie Mae’s drafting of remittances per Part V, Chapter 2: Reporting and Remitting, Section 209: Remittance Procedures.

Catastrophic Event
Natural or man-made hazard resulting in an event of substantial extent causing
• significant physical damage or destruction,
• loss of life, or
• drastic change to the natural environment, such as
  - earthquake,
  - flood,
  - terrorist attack, or
  - windstorm.

Synonyms
• Catastrophic Events

CESIR
Credit Enhancement Servicing and Investor Reporting System

Choice Refinance Loan
Mortgage Loan refinancing a Portfolio Mortgage Loan using streamlined underwriting per Part III, Chapter 18: Choice Refinance Loans.

Synonyms
• Choice Refinance Loans

Clearing Account
Lender account at an Eligible Depository used either for
• receiving funds for various loans and for the benefit of multiple investors, and from which segregated funds are transferred to specific Custodial Accounts held solely for the benefit of Fannie Mae, or
• disbursing funds after transfer from a Fannie Mae Custodial Account.

Synonyms
• Clearing Accounts
Closed Indenture

Indenture for a Bond transaction where all of the Bond proceeds finance only the Property securing the Mortgage Loan.

Co-Tenant Borrower

Borrower consisting of tenants-in-common that own the Property in equal or unequal shares.

**Synonyms**
- Co-Tenant Borrowers

Collateral

Property, Personal Property, or other property securing a Mortgage Loan.

Collateral Agreement

Agreement under which collateral (other than the Property) may be pledged, transferred, or otherwise provided to secure the Borrower's obligations under a Mortgage Loan.

**Synonyms**
- Collateral Agreements

Collateral Agreement Custodial Accounts

Custodial account established by the Servicer for depositing funds received from the Borrower for Collateral Agreements.

**Synonyms**
- Collateral Agreement Custodial Account

Commercial Condominium

Mixed-use Condominium Property combining Borrower-owned multifamily residential units with 1 or more other uses (e.g., retail, hotel, office, etc.) which may not be Borrower-owned.
<table>
<thead>
<tr>
<th><strong>Commitment</strong></th>
<th>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.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Committed • Commitments</td>
</tr>
<tr>
<td><strong>Commitment Amount</strong></td>
<td>Anticipated Mortgage Loan amount per the Commitment.</td>
</tr>
<tr>
<td><strong>Commitment Date</strong></td>
<td>Date a Commitment is confirmed by Fannie Mae per Part IV, Chapter 2: Rate Lock and Committing, Section 204: Commitments.</td>
</tr>
<tr>
<td><strong>Completion/Repair Agreement</strong></td>
<td>The 4000 series Completion/Repair Security Agreement (Form 4505), or other agreement approved by Fannie Mae, that evidences the: • Borrower’s agreement to perform Completion/Repairs and other identified capital improvements; • terms for funding the repairs, maintenance, or capital items; and • disbursement of Completion/Repair Escrow funds.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Completion/Repair Agreements</td>
</tr>
<tr>
<td><strong>Completion/Repair Escrow</strong></td>
<td>Custodial Account funded on the Mortgage Loan Origination Date for Completion/Repairs or capital improvements per the Loan Documents.</td>
</tr>
</tbody>
</table>
Completion/Repair Schedule

The Required Repair 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 perform Completion/Repairs and other identified capital improvements;
• terms for funding the repairs, maintenance, or capital items; and
• disbursement of Completion/Repair Escrow funds.

Synonyms
• Completion/Repair Schedules

Completion/Repairs

Immediate Repairs identified by the Property Condition Assessment and required by the Lender to be included in the Completion/Repair Schedule or Completion/Repair Agreement (or a Certificate of Borrower, if applicable).

Synonyms
• Completion/Repair

Condominium

Statutorily established Property ownership regime where Condominium Documents designate:
• individual units for separate ownership; and
• common areas for shared use and joint ownership by the unit owners.
### Condominium Documents

Governing documents:
- for the Condominium and owners’ association’s creation, operation, and management; and
- including Condominium instruments for Condominium governance, such as declarations, plats, bylaws, rules and regulations, articles of incorporation, or any other document required by law.

**Synonyms**
- Condominium Document

### Continuing Care Retirement Community

Seniors Housing Property that provides a continuum of care on a single campus, including any combination of Independent Living, Assisted Living, Alzheimer’s/Dementia Care, or Skilled Nursing units.

**Synonyms**
- CCRC
- CCRCs

### Control

Possessing, directly or indirectly, the power to direct or cause the management and operations of an entity (e.g., through the ownership of voting securities or other ownership interests, or by contract).

**Synonyms**
- Controlling
- Controlled
- Controls

### Controlling Interest

For any entity, ownership or control of 50% or more of the ownership interests in the entity or the power or right to control or modify, directly or indirectly, the management and operations of the entity.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperative Gross Sellout Value</td>
<td>Value based upon the sum of the gross sales prices of all units (subject to discounts on rent restricted units) plus the aggregate UPB of all existing Mortgage Loans (prior to any proposed refinancing) secured by a Lien on the Cooperative Property.</td>
</tr>
<tr>
<td>Cooperative Maintenance Fee</td>
<td>Periodic fee assessed each shareholder or owner of a Cooperative Organization to fund costs and expenses associated with ongoing operations of the Cooperative Property.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Cooperative Maintenance Fees</td>
</tr>
<tr>
<td>Cooperative Maintenance Fee Accounts Receivable</td>
<td>Cooperative Maintenance Fees due the Cooperative Organization that are more than 30 days past due.</td>
</tr>
<tr>
<td>Cooperative Market Rental Basis</td>
<td>Financial analysis or valuation of a Cooperative Property conducted as if it were operated as a conventional multifamily property subject to applicable rental restrictions.</td>
</tr>
<tr>
<td>Cooperative Operating Reserve</td>
<td>Liquid funds, including loan proceeds, controlled by the Cooperative Organization to cover operating and capital expenses, and comprised of unrestricted cash, less the sum of accounts payable.</td>
</tr>
<tr>
<td>Cooperative Organization</td>
<td>Corporation or legal entity where each shareholder or equity owner is granted the right to occupy a unit in a multifamily residential property under a proprietary lease or occupancy agreement.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Cooperative Property</td>
<td>Multifamily residential property owned by a Cooperative Organization.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Co-op</td>
</tr>
<tr>
<td></td>
<td>• Cooperative</td>
</tr>
<tr>
<td>Cooperative Property Sponsor</td>
<td>Person who invested in, converted, or is converting a residential rental apartment building to a Cooperative Property and continues to own unsold shares in the Cooperative Organization.</td>
</tr>
<tr>
<td>Cost Certification</td>
<td>Independent third-party audit report itemizing the Property's construction and development costs, including a statement of eligible and qualified basis, submitted to the state housing finance agency to obtain IRS Form 8609(s).</td>
</tr>
<tr>
<td>Course of Action</td>
<td>For Non-Performing Mortgage Loans, loss mitigation activities per per Part V, Chapter 7: Non-Performing Mortgage Loans.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Courses of Action</td>
</tr>
<tr>
<td>Credit Enhancement Fee</td>
<td>Fee due to Fannie Mae for a Credit Enhancement Instrument.</td>
</tr>
<tr>
<td>Credit Enhancement Instrument</td>
<td>Agreement between Fannie Mae and a Bond Trustee where Fannie Mae provides credit enhancement of a Credit Enhancement Mortgage Loan, Bonds issued to finance a Credit Enhancement Mortgage Loan, or an Interest Rate Hedge Agreement; and if applicable, a Bond liquidity facility.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Credit Enhancement Instruments</td>
</tr>
</tbody>
</table>
Credit Enhancement Mortgage Loan: Mortgage Loan financed by a Bond issuance where Fannie Mae provides credit enhancement by
• a Credit Enhancement Instrument, or
• an MBS for Bonds.

Synonyms
• Credit Enhancement Mortgage Loans

Credit Facility: Structured Transaction governed by a Master Credit Facility Agreement requiring Mortgage Loans and Properties to be
• cross-defaulted, and
• cross-collateralized.

Synonyms
• Credit Facilities

CUSIP: Committee on Uniform Securities Identification Procedures 9-digit security identification number assigned by Fannie Mae to identify the MBS Pool in the book-entry system.

Custodial Account: Accounts established by the Servicer for depositing P&I payments, T&I funds, Collateral Agreement deposits, and other similar funds.

Synonyms
• Custodial Accounts

Date of Default: Date of the initial Payment Default or Performance Default, per Part V, Chapter 7: Non-Performing Mortgage Loans, Section 703: Mortgage Loan Defaults.

Deal ID: For a Structured Transaction, the number assigned by MSFMS.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Service Coverage Ratio</td>
<td>On an annual basis or any specified period, the ratio of Net Cash Flow to the total of: principal, interest, and required Mezzanine Financing or Hard Preferred Equity payments.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>DSCR</td>
</tr>
<tr>
<td>Decontrol Event</td>
<td>For Properties located in New York City, an event that causes a property or unit to be removed from rent control but subject to rent-stabilization pursuant to New York City rent stabilization laws.</td>
</tr>
<tr>
<td>Dedicated Student Housing Property</td>
<td>Multifamily rental Property in which 80% or more of the units are leased to undergraduate or graduate students.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>Dedicated Student Housing</td>
</tr>
<tr>
<td>Defeasance</td>
<td>Transaction where a Property is released from the lien of the Security Instrument and the Lender receives a valid and perfected lien and security interest in substitute collateral acceptable to Fannie Mae and the cash flows thereunder.</td>
</tr>
<tr>
<td>Delegated Transaction Form</td>
<td>Multifamily Asset Management Delegated Transaction Form (Form 4636 series) used to determine whether certain asset management requests from a Borrower are delegated to the Servicer.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>Delegated Transaction Forms</td>
</tr>
</tbody>
</table>
Delinquency Advance  For Primary Risk Mortgage Loans and Secondary Risk Mortgage Loans, an amount advanced by a primary servicer in respect of regularly scheduled monthly interest or principal due on 1 or more Mortgage Loans, to the extent required under its Lender Contract. For Secondary Risk Mortgage Loans only, in addition to the above, any amount advanced by a primary servicer in respect of all accrued but unpaid interest and principal due on 1 or more Mortgage Loans at the applicable Maturity Date of each relevant Mortgage Loan.

Synonyms
• Delinquency Advances

Delivered Mortgage Loan Amount  UPB of a Mortgage Loan when it is purchased by Fannie Mae.

Delivery  Submission of all correct, accurate, and certifiable documents, data, and information with all applicable documents properly completed, executed, and recorded as needed, and any deficiencies resolved to Fannie Mae’s satisfaction.

Synonyms
• Deliver
• Delivered
• Deliveries

Delivery Assurance Security Instrument  The applicable Security Instrument (Form 6025 series), as modified by the Modifications to Security Instrument (Unfunded Forwards) (Form 6321).

Direct Pay  Credit enhancement under which Fannie Mae makes principal and interest payments directly to the Bond Trustee (for payment to bondholders) regardless of whether the Borrower has reimbursed Fannie Mae for such payments.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclosure Documents</td>
<td>Documents for an Investor for a particular Securitized Mortgage Loan, which may include the MBS Trust Agreement, Prospectus, and any related documents.</td>
</tr>
<tr>
<td>DocWay</td>
<td>Business-to-business electronic documentation delivery application, or any successor system.</td>
</tr>
<tr>
<td>Drafting Account</td>
<td>Custodial Account established by the Lender for the benefit of Fannie Mae and for which Fannie Mae has authority to transfer funds.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Drafting Accounts</td>
</tr>
<tr>
<td>Dual Commitment Option</td>
<td>For a Streamlined Rate Lock Mortgage Loan trade with the Multifamily Trading Desk, your ability to increase the Mortgage Loan Rate Lock amount.</td>
</tr>
<tr>
<td>DUS</td>
<td>Delegated Underwriting and Servicing</td>
</tr>
<tr>
<td>DUS Disclose</td>
<td>Multifamily system providing disclosure to Investors on a multifamily Security, or any successor systems.</td>
</tr>
<tr>
<td>DUS Gateway</td>
<td>Multifamily pre-acquisition system including deal registration, Pre-Review and/or waiver tracking, decision records, or any successor systems.</td>
</tr>
<tr>
<td>DUS Lender</td>
<td>Lender approved to Deliver loans under the Delegated Underwriting and Servicing program.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• DL</td>
</tr>
</tbody>
</table>
DUS Lender Affiliate Mezzanine Financing provided by an approved mezzanine lending affiliate of a DUS Lender.

Synonyms
• DLA Mezzanine Financing

DUS Plus Mezzanine Financing option provided by the Fannie Mae-designated mezzanine Lender.

Effective Gross Income On an annual basis or any specified period, the total of Net Rental Income plus other income per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products and features in Part III.

Synonyms
• EGI

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 Activity and Use Limitations Legal or physical restrictions or limitations on the use of, or access to, all or any portion of a site, facility, groundwater, soils, or other media at, on, about or under a site or facility to reduce or eliminate potential exposure to Hazardous Materials or to prevent activities that could interfere with the effectiveness of a Hazardous Materials removal, response or remediation.
| Environmental Laws | All current federal, state, and local laws, ordinances, regulations, standards, rules, policies, and other governmental requirements, administrative rulings, court judgments, and decrees, and all amendments thereto, relating to pollution or protection of human health, wildlife, wetlands, natural resources or the environment (including ambient air, surface water, ground water, land surface, or subsurface strata) including such laws governing or regulating the use, generation, storage, removal, remediation, recovery, treatment, handling, transport, disposal, control, release, discharge of, or exposure to, Hazardous Materials, and voluntary cleanup programs and/or brownfields programs. |
| Environmental Site Assessment | Report (either a Phase I ESA or a Phase II ESA) identifying whether a Property is subject to Recognized Environmental Conditions or Business Environmental Risks. |

**Synonyms**
- ESA

**EPA**
U.S. Environmental Protection Agency

**ERL Agreement**
Agreement between the Borrower and Lender for the Rate Lock of an ERL Mortgage Loan.

**ERS**
Enhanced Resident Services
Essential Elements  
A Shared Use Property’s amenities, common areas or infrastructure:
- impacting or essential to the:
  - operation,
  - use,
  - value and marketability,
  - leasing,
  - refinancing, and/or
  - zoning or legal compliance; and
- examples of Essential Elements may include:
  - parking,
  - roadways,
  - utility easements, and
  - amenities such as
    - laundry facilities,
    - clubhouses,
    - pools,
    - playgrounds,
    - tennis courts,
    - fitness clubs, and
    - recreational facilities.

Fannie Mae Deal Team  
Team responsible for reviewing Pre-Review Mortgage Loans, waivers, etc.

Synonyms  
• Deal Team

Fannie Mae Ethics  
Team that can be contacted at (888) 363-8442 or fm_ethics@fanniemae.com.

Fannie Mae Mezz  
Team that can be contacted at mezz_team@fanniemae.com.

Fannie Mae Mortgage Fraud Division  
Team which can be contacted at (800) 2FANNIE (232-6643) or https://fims.my.salesforce-sites.com/MortgageFraudReport.
Fannie Mae Pool Number
Number assigned by Fannie Mae identifying an MBS Pool.

Fannie Mae Privacy Office
Team that can be contacted at privacy_workinggroup@fanniemae.com.

Fannie Mae Representative
Fannie Mae personnel who assist you with various business matters (e.g., Fannie Mae Deal Team, pricing, delivery, servicing, asset management, etc.).

FDIC
Federal Deposit Insurance Corporation

FEMA
Federal Emergency Management Agency

FHA
Federal Housing Administration

FHA Risk Sharing
MAH Mortgage Loan with mortgage insurance from FHA.

FHFA
Federal Housing Finance Agency.

FinCen
U.S. Treasury Department, Financial Crimes Enforcement Network

Foreclosure Event
Any of the following:
• Foreclosure under the Security Instrument;
• any other exercise by the Lender of rights and remedies (whether under the Security Instrument or under applicable law, including Insolvency Laws) as holder of the Mortgage Loan and/or the Security Instrument, as a result of which the Lender (or its designee or nominee) or a third-party purchaser becomes owner of the Property;
• delivery by the Borrower to the Lender (or its designee or nominee) of a deed or other conveyance of the Borrower’s interest in the Property in lieu of any of the foregoing; or
• in Louisiana, any dation en paiement.
Foreign Person  Person who is not:
  • a United States citizen;
  • a legal permanent resident; or
  • an entity organized and existing under the laws of the United States of America, or its states or territories.

Form 4660  Multifamily Underwriting Standards identifying Pre-Review Mortgage Loans and containing the minimum 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

Forward Commitment  Commitment to purchase a permanent Mortgage Loan for a to-be constructed or rehabilitated Property.

  **Synonyms**
  • Forward Commitment's
  • Forward Commitments

Forwards Team  Team that can be contacted at mf_forwards_team@fanniemae.com.

Fractured Condominium  Residential Condominium Property where the Borrower owns less than 100% of the units.

Good Faith Deposit  Amount you collect from the Borrower when originating a Mortgage Loan per Part IV, Chapter 2: Rate Lock and Committing, Section 203: Good Faith Deposits.

  **Synonyms**
  • Good Faith Deposits
Green Building Certification  Designation awarded by a third-party organization that is recognized by Fannie Mae and listed in the Green Building Certifications (Form 4250) for multifamily properties constructed or maintained to meet specified energy and water efficiency standards or other sustainability criteria.

Green Mortgage Loan  Mortgage Loan secured by a Property that incorporates features expected to have a positive environmental outcome including, but not limited to, reducing energy and water consumption at a Property, generating energy, or meeting criteria set by a third-party green building certification organization.

Synonyms  • Green Mortgage Loans

Green Rewards Mortgage Loan  Mortgage Loan secured by a Property where the Borrower agrees to undertake 1 or more Energy- and Water-Efficiency Measures that comply with Part III, Chapter 4: Green Mortgage Loans, Section 403: Green Rewards Mortgage Loans.

Synonyms  • Green Rewards Mortgage Loans  • Green Rewards

Green Rewards Verification  Green Rewards Mortgage Loan Property inspection ensuring all Efficiency Measures were correctly installed.

Gross Note Rate  Interest rate stated in the Loan Documents.
Gross Potential Rent  On an annual basis or any specified period, the total actual and potential rent for a Property per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products and features in Part III.

Synonyms
• GPR

Ground Lease  Contract for the rental of land, usually on a long term basis.

Guarantor  Key Principal or other Person executing a
• Payment Guaranty,
• Non-Recourse Guaranty, or
• any other Mortgage Loan guaranty.

Synonyms
• Guarantors

Guaranty  Payment Guaranty, Non-Recourse Guaranty, or other guaranty by a Guarantor for the Mortgage Loan.

Guaranty Fee  Fee retained by Fannie Mae for credit enhancing a Mortgage Loan or assuming credit risk on a Mortgage Loan, and which may be expressed as a percentage.

Synonyms
• Guaranty Fees

Guide  Multifamily Selling and Servicing Guide controlling all Lender and Servicer requirements unless a Lender Contract specifies otherwise.

Synonyms
• DUS Guide
HAP  HUD project-based Section 8 rental subsidy in the form of a Housing Assistance Payment contract.

**Synonyms**
• Housing Assistance Payment

High Performance Building Module  PCA High Performance Building Module assessing cost effective opportunities to increase a Property’s energy and water efficiency and reduce costs.

**Synonyms**
• HPB Module

High Seismic Risk  Area or a specific site identified by the most recent USGS data (see United States Geological Survey (USGS) Peak Ground Acceleration (PGA) Calculator Tutorial) as having a PGA equal to or greater than 0.15g (i.e., 15% of the acceleration of gravity (g) using a 10% probability of exceedance in a 50 year period).

Homeowner  For an MH Community, a tenant of the Borrower who pays ground rent to the owner for use and occupancy of the MH Site and for use of the MH Community’s utilities and amenities.

**Synonyms**
• Homeowners

Housing Choice Voucher  Any rental assistance payment or voucher to an eligible tenant under Section 8 of the United States Housing Act of 1938, 42 U.S.C. § 1437f, as amended.

**Synonyms**
• Housing Choice Vouchers

HPB  High Performance Building
HUD

U.S. Department of Housing and Urban Development

Synonyms

• HUD's

HUD Use Agreement

Contract between HUD and the Borrower identifying Property use restrictions and default remedies for HUD programs such as Housing Assistance Payments and Rental Assistance Demonstration.

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

Hybrid ARM Loan Conversion Date

Date when the UPB of a Hybrid ARM Loan automatically converts from accruing at a fixed interest rate to accruing at an adjustable interest rate.

Synonyms

• Hybrid ARM Conversion Date

Improvements

Buildings, structures, improvements, and alterations, including the multifamily housing dwellings, now constructed or hereafter constructed or placed on the land upon which the Property is located, together with all fixtures (as defined in the Uniform Commercial Code).

In Place Loan

Mortgage Loan refinancing a Portfolio Mortgage Loan that does not meet Tier 2 underwriting requirements.

Synonyms

• In Place Loans
Indenture  Bond issuer trust indenture or resolution listing Bond terms.

Independent Living  Seniors Housing providing limited programs of assistance for domestic activities (e.g. meals, housekeeping, activities, transportation, etc.), and typically resembles market rate units.

Synonyms  • IL

Index  Basis for determining the Gross Note Rate of an ARM Loan, including any required alternative index that may be determined necessary by Fannie Mae because the Index is no longer widely accepted or has been replaced as the index for similar financial instruments.

Interest Rate Cap  Interest rate agreement between the Borrower and a provider for which the Borrower receives payments at the end of each period when the interest rate exceeds the Cap Strike Rate. The Interest Rate Cap provides a ceiling (or cap) on the Borrower's Mortgage Loan interest payments.

Synonyms  • Interest Rate Caps  • Interest Rate Hedge  • Interest Rate Hedges  • Interest Rate Swap

Interest Rate Cap Agreement  Contract setting forth the terms and conditions of an Interest Rate Cap, Hedge, or Swap.

Synonyms  • Interest Rate Hedge Agreement  • Interest Rate Swap Agreement
<table>
<thead>
<tr>
<th><strong>Interest Rate Conversion Agreement</strong></th>
<th>Document describing the terms and conditions when a Mortgage Loan interest rate may convert from an adjustable rate to a fixed rate.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investor</strong></td>
<td>MBS Investor for an MBS Mortgage Loan, or Fannie Mae for a Cash Mortgage Loan.</td>
</tr>
</tbody>
</table>
| **Synonyms**                         | • Investors  
• Investor's                                                                                                                  |
| **IRP**                              | Interest Reduction Payment                                                                                                       |
| **Synonyms**                         | • Interest Reduction Payment                                                                                                     |
| **Issue Date**                       | First day of the month a Security is issued.                                                                                      |
| **Issue Date Principal Balance**     | For any Securitized Mortgage Loan, the UPB of the Note after crediting:  
• the principal portion of any scheduled monthly installment due on or before the Security Issue Date, whether or not collected; and  
• any unscheduled principal payment received on or before the Security Issue Date. |
| **Issuer**                           | Entity that:  
• issues Bonds for a Credit Enhancement Mortgage Loan;  
• packages mortgages for sale as a Security for an MBS; or  
• issues a Letter of Credit.                                                                                                      |
| **Synonyms**                         | • Issuers                                                                                                                         |
Key Principal
Any 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 who may be required to provide a Guaranty.

Synonyms
• Key Principals

L

Last Paid Installment
Due date of the last payment received.

Synonyms
• LPI

Lease
Written agreement between an owner and the tenant of a Property stipulating the conditions for possession and use of real estate for a specified period of time and rent.

Synonyms
• Leases

Leasehold
Property held under a long-term lease or Ground Lease.

Lender
Person Fannie Mae approved to sell or service Mortgage Loans.

Synonyms
• Lenders
• Lender’s

Lender Affiliate
Other Person or entity that Controls, is Controlled by, or is under common Control with, the Lender.

Lender Assessment Oversight
Team that can be contacted at lenderassessment_oversightteam@fanniemae.com.
<table>
<thead>
<tr>
<th>Lender Contract</th>
<th>Program Documents per the Multifamily Selling and Servicing Agreement.</th>
</tr>
</thead>
</table>

**Synonyms**
- Lender’s Contract
- Lender Contracts
- Contract
- MSSA

<table>
<thead>
<tr>
<th>Lender Risk Management</th>
<th>Team that can be contacted at <a href="mailto:lender_risk_management@fanniemae.com">lender_risk_management@fanniemae.com</a>.</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Lender Senior Executive</th>
<th>For any Lender any:</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. senior executive officer serving as its president, chief executive officer, chief financial officer, chief operating officer, chief production officer, chief underwriter, chief asset manager, chief legal officer, or substantially equivalent position;</td>
<td></td>
</tr>
<tr>
<td>b. individual with voting or approval rights over whether the Lender commits to make a Mortgage Loan; or</td>
<td></td>
</tr>
<tr>
<td>c. family member of, or individual having a close relationship with, any individual identified in (a) or (b).</td>
<td></td>
</tr>
</tbody>
</table>

**Synonyms**
- Lender Senior Executives

<table>
<thead>
<tr>
<th>Lender-Arranged Sale</th>
<th>MBS sold to the Lender and held on its balance sheet or delivered to a Third Party MBS Investor.</th>
</tr>
</thead>
</table>

**Synonyms**
- Lender-Arranged Sales
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Letter of Credit</td>
<td>Letter of Credit approved by Fannie Mae per Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit.</td>
</tr>
</tbody>
</table>
| Synonyms                                  | • Letters of Credit  
• Letter of Credit's  
• LOC  
• LOCs                                                                                                                                                                                                 |
| LIBOR                                     | London Interbank Offered Rate is the benchmark interest rate banks quote to lend funds to one another in the international interbank market for short-term loans.                                      |
| Lien                                      | Lien, mortgage, bond interest, pledge, security interest, charge, or encumbrance of any kind.                                                                                                          |
| Synonyms                                  | • Liens                                                                                                                                                                                                  |
| LIHTC Income Averaging                    | Internal Revenue Code Section 42 election allowing LIHTC property owners to rent units to households earning up to 80% of AMI, provided  
• a minimum of 40% of the residential units are both rent-restricted and occupied by households with a maximum income up to an average of 60% of AMI, and  
• the unit’s rents are limited to 30% of the qualifying income level.  
For example, for a 30% AMI unit, the maximum rent that may be charged to a household is 30% of AMI. |
<p>| Limited Equity Cooperative Property       | Cooperative Organization that has income, rent, or equity build-up restriction (not including any transfer taxes), which may be dictated by a governmental entity, a third-party capital provider, or its own organizational documents. |
| Synonyms                                  | • Limited Equity Cooperative Properties |</p>
<table>
<thead>
<tr>
<th>Limited Power of Attorney</th>
<th>Legal document authorizing a Servicer to execute certain Loan Documents related to the asset management of a Mortgage Loan as attorney-in-fact on behalf of Fannie Mae.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Documentation Requirements</td>
<td>Loan Documents listed in Form 6000 applicable to the particular Mortgage Loan execution and/or product and features.</td>
</tr>
<tr>
<td>Loan Documents</td>
<td>All executed Fannie Mae-approved documents evidencing, securing, or guaranteeing the Mortgage Loan.</td>
</tr>
</tbody>
</table>
| **Synonyms** | • Loan Document  
• Mortgage Loan Document  
• Mortgage Loan Documents |
| Loan Number | 10-digit number assigned by Fannie Mae to each Mortgage Loan. |
| Loan Year | Period beginning on the date of the Note and ending on the last day of the month that is 12 full months after the date of the Note, and each successive 12-month period thereafter. |
| **Synonyms** | • Loan Years |
| Loan-to-Value Ratio | Ratio of the actual aggregate UPB of the Mortgage Loan, plus any Pre-Existing Mortgage Loans, plus any Hard Preferred Equity, plus any Mezzanine Financing, to the value of the Property, expressed as a percentage. |
| **Synonyms** | • LTV  
• LTV Ratio |
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Borrower</td>
<td>For Small Mortgage Loans, a Borrower or at least 1 Key Principal of the Borrower that has a primary residence located within 200 miles of the Property.</td>
</tr>
<tr>
<td>Low-Income Housing Tax Credit</td>
<td>Federal program offering tax credits to owners of eligible properties that contain low-income occupants and rent restrictions.</td>
</tr>
</tbody>
</table>
| **Synonyms**             | • Low-Income Housing Tax Credits  
• Low Income Housing Tax Credits  
• LIHTC  
• LIHTCs     |
| M                        | Multifamily Asset Management Portal used to submit  
• Property inspections,  
• operating statements,  
• requested modifications,  
• asset management reports, and  
• data corrections for loan or property attributes. |
| **Synonyms**             | • Multifamily Asset Management Portal  
• MAMP's     |
| Manufactured Home        | Factory-built home complying with the Manufactured Home HUD Code.  
**Synonyms**             | • Manufactured Homes     |
| **Manufactured Housing Community** | Residential real estate development with lots on which manufactured homes are located, together with amenities, utility services, landscaping, roads, and other infrastructure. |
| **Synonyms** | • Manufactured Housing Property  
• MH Community  
• MH Community's  
• MH Communities  
• MHC |
| **Manufactured Housing Community Score** | Score of 3 through 5 based on characteristics of the MH Community per Part III, Chapter 6: Manufactured Housing Communities, Section 603.02: MH Community Score. |
| **Synonyms** | • MH Community Score  
• MHC Score |
| **Manufactured Housing Site** | Developed lot within an MH Community on which a Manufactured Home can be located. |
| **Synonyms** | • MH Site  
• MH Sites |
| **Master Credit Facility Agreement** | Agreement evidencing the terms and conditions of a Credit Facility. |
Material Amendment

Change to the Condominium Documents pertaining to:
• modifying, after a casualty or condemnation,
  - insurance requirements,
  - use of insurance proceeds, or
  - rebuild requirements;
• altering or restricting the use of the
  - Condominium units,
  - common elements, or
  - other easements;
• decreasing mortgagee
  - rights, or
  - notices;
• altering or diluting
  - voting rights, or
  - the number of board seats;
• diluting Borrower's ownership interest in, or use of, common elements;
• changing the structure or methodology for determining assessments and special assessments; or
• causing or allowing termination of the Condominium structure without Borrower or mortgagee consent.

Material Commercial Lease

Lease, sublease, license, concession, grant, or other possessory interest for commercial purposes that comprises 5% or more of the Property's annual EGI, or relates to:
• solar power, thermal power generation, or co-power generation, or for the installation of solar panels or any other electrical power generation equipment, and any related power purchase agreement; or
• any Property dwelling units leased to any
  - Key Principal,
  - Principal, or
  - Affiliate.

Synonyms
• Material Commercial Leases
<table>
<thead>
<tr>
<th><strong>Maturity Date</strong></th>
<th>Date all amounts due and owing per the Mortgage Loan become fully due and payable per the Loan Documents.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Maturity Dates</td>
</tr>
<tr>
<td><strong>Maturity Management</strong></td>
<td>Team that can be contacted at <a href="mailto:TopLoss_SAM@fanniemae.com">TopLoss_SAM@fanniemae.com</a>.</td>
</tr>
<tr>
<td><strong>MBA</strong></td>
<td>Mortgage Bankers Association</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• MBA’s</td>
</tr>
<tr>
<td><strong>MBS</strong></td>
<td>Mortgage-Backed Security</td>
</tr>
</tbody>
</table>
| **MBS for Bonds** | Fannie Mae MBS:  
• issued to credit enhance tax-exempt Bonds; or  
• exchanged for Bonds redeemed at MBS issuance.  |
| **Synonyms**      | • MBS Exchange  
• MTEB  
• MTEM                                                                                       |
| **MBS Investor**  | For MBS Mortgage Loans, either a Third Party MBS Investor for Lender-Arranged Sales, or the Multifamily Trading Desk. |
| **MBS Mortgage Loan** | Mortgage Loan purchased by Fannie Mae in exchange for an issued MBS backed by the Mortgage Loan. |
| **Synonyms**      | • MBS Mortgage Loans                                                                                   |
MBS Pool  
MBS Security backed by MBS Mortgage Loans.

**Synonyms**  
• MBS Pools  
• MBS Pool's

Medicaid Funds  
Funds paid to a provider by governmental authorities or managed care organizations, under Medicaid provider agreements.

Metropolitan Statistical Area  
Geographic delineation for a metropolitan area determined by the U.S. Census Bureau.

**Synonyms**  
• MSA

Mezzanine Financing  
Subordinate debt financing provided to a direct or indirect owner of a Borrower that is secured by a pledge of the direct or indirect equity interest in the Borrower held by the owner, and not by a Lien on the Property.

Military Housing Property  
Multifamily rental Property in which 40% or more of the units are occupied by individuals serving in, or employed by, the United States military.

**Synonyms**  
• Military Housing

Minimum 1% Prepayment Premium  
For a prepayment, an amount equal to 1% of the UPB.

Minimum Good Faith Deposit  
Amount you are required to collect when originating a Mortgage Loan per Part IV, Chapter 2: Rate Lock and Committing, Section 203.02: Minimum Good Faith Deposit.
Minimum Required Trade Information

Mortgage Loan, Security, and Property information that must be disclosed to any potential Investor when rate locking a Mortgage Loan, using either:
• Form 4097.Fixed – Multifamily Required Trade Information for Cash or MBS, for a fixed Rate Mortgage Loan; or
• Form 4097.ARM – Multifamily Required Trade Information for Cash or MBS, for an ARM Loan, SARM Loan, or Hybrid ARM Loan.

Moderate Rehabilitation Property

Property that will undergo at least $8,000 per unit of Rehabilitation Work.

Synonyms
• Moderate Rehabilitation

Modular Housing

Property on which the multifamily Improvements are constructed of sections built off-site, such as modular, prefabricated, panelized, or sectional housing, and then assembled and installed on-site on a permanent foundation (and not a chassis).

Synonyms
• Cardinal

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 enhancement.

Synonyms
• Mortgage Loans
• Mortgage Loan’s

Mortgage Loan Delivery Package

Loan Documents and underwriting material required in connection with the Delivery of a Mortgage Loan.
Mortgage Loan Origination Date

Date you fund a Mortgage Loan to the Borrower.

**Synonyms**
- Mortgage Loan's Origination Date
- Origination Date

MSFMS

Multifamily Structured Facilities Management System performing collateral delivery and securitization functions for Structured Transactions.

MSFMS Deal ID

Number assigned by MSFMS when registering a Structured Transaction.

Multifamily Acquisitions

Team that can be contacted at mf_acquisitions@fanniemae.com.

Multifamily Affordable Housing Property

Property encumbered by a regulatory agreement, land use restriction agreement, extended use agreement, or similar restriction that limits rents that can be charged to tenants, or imposes income limits on tenants.

**Synonyms**
- MAH
- Multifamily Affordable Housing
- MAH Property

Multifamily Asset Management

Team that can be contacted at drawer_am@fanniemae.com.

Multifamily Bond Credit Enhancement

Team that can be contacted at mf_bond_credit_enhancement_team@fanniemae.com.

Multifamily Business Operations

Team that can be contacted at multifamily_bizops@fanniemae.com.
<table>
<thead>
<tr>
<th>Multifamily Certification and Custody</th>
<th>Team responsible for taking custody of and certifying Mortgage Loans that can be contacted at ■ <a href="mailto:multifamcert_team@fanniemae.com">multifamcert_team@fanniemae.com</a>, ■ (800) 940-4646, or ■ for submissions: Fannie Mae (Multifamily) Certification and Custody 21240 Ridgetop Circle Suite 125-130 Sterling, VA 20166.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Synonyms</strong></td>
<td>• DDF • Document Delivery Facility • Document Delivery System</td>
</tr>
<tr>
<td>Multifamily Committing and Delivery System</td>
<td>Electronic committing and delivery system used for issuing and confirming Commitments for acquiring Mortgage Loans, or any such successor system.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• C&amp;D</td>
</tr>
<tr>
<td>Multifamily Disclosure Operations</td>
<td>Team that can be contacted at <a href="mailto:mf_special_disclosures@fanniemae.com">mf_special_disclosures@fanniemae.com</a>.</td>
</tr>
<tr>
<td>Multifamily Inspections</td>
<td>Team that can be contacted at <a href="mailto:mf_inspections@fanniemae.com">mf_inspections@fanniemae.com</a>.</td>
</tr>
<tr>
<td>Multifamily Insurance</td>
<td>Team that can be contacted at <a href="mailto:drawer_insurance@fanniemae.com">drawer_insurance@fanniemae.com</a>.</td>
</tr>
<tr>
<td>Multifamily Loan Agreement</td>
<td>Agreement evidencing Mortgage Loan terms using ■ Form 6001 series Loan Documents, or ■ another Fannie Mae-approved form.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Multifamily Loan Agreements</td>
</tr>
</tbody>
</table>
Multifamily Loss Mitigation: Team that can be contacted at lm_watch@fanniemae.com.

**Synonyms**
• Multifamily Watchlist

Multifamily Master Servicing: Team that can be contacted at multifamily_ops_servicing@fanniemae.com.

Multifamily Maturity Management: Team that can be contacted at Maturity_Management_Group@fanniemae.com.

Multifamily Mortgage Loan Delivery Package Table of Contents: Form 6502.Folder.I and Folder.III, Form 6502.Folder.II, or another Fannie Mae-approved Table of Contents for a Mortgage Loan Delivery Package.

Multifamily Operating Statements: Team that can be contacted at mf_operatingstatements@fanniemae.com.

Multifamily Seniors Housing Property Asset Management: Team that can be contacted at seniors_am@fanniemae.com.

Multifamily Structured Acquisitions: Team that can be contacted at mf_spot@fanniemae.com.

Multifamily Structured Asset Management: Team that can be contacted at structured_am@fanniemae.com.

Multifamily Trading Desk: Team that quotes interest rate pricing for a Mortgage Loan and can be contacted at (888) 889-1118.

Multifamily Underwriting Certificate: Multifamily Underwriting Certificate (Form 6460 series), and/or other agreement approved by Fannie Mae that provides underwriting information for a Mortgage Loan.
National Flood Insurance Program

Program of flood insurance coverage and floodplain management administered under the National Flood Insurance Act.

**Synonyms**

- NFIP

National Society of Professional Surveyors

National Society of Professional Surveyors

**Synonyms**

- NSPS

NCUSIF

National Credit Union Share Insurance Fund administered by the National Credit Union Administration.

Near Stabilized Property

Newly constructed or recently rehabilitated Property, with all construction or rehabilitation complete, which is expected to achieve Stabilized Residential Occupancy and the applicable required Underwritten Debt Service Coverage Ratio within 120 days after the Mortgage Loan Origination Date.

Negotiated Seller Number

Number assigned by Fannie Mae identifying the Person currently servicing a Structured Transaction.

Net Cash Flow

On an annual basis or any specified period, the total Net Operating Income, minus the full amount underwritten for Replacement Reserve expense, regardless of whether deposits will be made (per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products and features in Part III).

**Synonyms**

- NCF
Net Operating Income

Annually or for any specified period, the total Effective Gross Income minus the Property’s operating expenses.

Synonyms
• NOI

Net Rental Income

On an annual basis or any specified period, the net rental income for a Property (per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products and features in Part III).

Synonyms
• NRI

New Construction

Property recently developed/constructed with any certificates of occupancy received within 12 months before the Commitment Date.

Non-Contiguous Parcels

Multiple parcels of land securing a Mortgage Loan that do not share common boundaries or that are separated by dedicated or private streets that are major arterials.

Synonyms
• Non-Contiguous Parcel

Non-Performing Mortgage Loan

Mortgage Loan that is subject to an uncured default.

Synonyms
• Non-Performing Mortgage Loans
• Non-Performing

Non-Recourse Guaranty

Guaranty executed by a Key Principal on Form 4501 series or Form 6015 series, or approved by Fannie Mae.

Synonyms
• Guaranty of Non-Recourse Obligations
**Note**
Instrument evidencing a Mortgage Loan obligation, including
- Form 6010 series,
- any other Fannie Mae-approved note, and
- all applicable
  - addenda,
  - schedules, and
  - exhibits.

**Synonyms**
- Notes

**OFAC**
U.S. Treasury Department, Office of Foreign Assets Control.

**Open Indenture**
Indenture for a Bond transaction where a portion of the Bond proceeds finance projects in addition to the Property securing the Mortgage Loan.

**Operations and Maintenance Plan**
Written plan, document, or agreement containing ongoing operating, maintenance, or monitoring actions for the Property or its Improvements.

**Synonyms**
- O&M
- O&M Plan
- O&M Plans

**Origination Fee**
Fee you charge the Borrower for underwriting and originating the Mortgage Loan.

**Synonyms**
- Origination Fees

**P**
**P&I**
Principal and interest
P&I Custodial Account
Custodial Account for principal and interest deposits.

**Synonyms**
- P&I Custodial Accounts

Partial Efficiency Measures
Efficiency Measures installed in a subset of units (e.g., if new ENERGY STAR® refrigerators are only required in 40 of the Property's 100 units).

**Synonyms**
- Partial Efficiency Measure

Participation Interest
Undivided interest in a Mortgage Loan per the participation certificate for a specified percentage of principal (and proportionate rights and benefits of the Participation Interest seller in any Mortgage Loan collateral or guaranty), and a specified yield.

**Synonyms**
- Participation Interests

Pass-Through Rate
Mortgage Loan Gross Note Rate minus the Guaranty Fee, minus the Servicing Fee.

Payment Default
Failure of a Borrower to pay when due and in full any payment required for the Mortgage Loan, including, but not limited to, principal, interest, late charges, default interest, fees, prepayment premium, escrows, or other collateral accounts for taxes, insurance premiums, and assessments, other collateral accounts, and the Replacement Reserve.

**Synonyms**
- Payment Defaults

Payment Guaranty
Guaranty executed by a Key Principal on Form 4502 series or Form 6020 series, or approved by Fannie Mae.
PCA Consultant  Individual or firm conducting a PCA and preparing a PCA Report.

PCA Report  Property Condition Assessment Report documenting the findings of a PCA.

Performance Default  Failure of a Borrower to perform any promise or covenant within any applicable grace periods under the related Mortgage Loan other than a failure that constitutes a Payment Default.

Synonyms  • Performance Defaults

Permitted Encumbrances  The following permitted title exceptions:
• lien of current real property taxes, water charges, sewer rents and assessments not yet due and payable;
• covenants, conditions and restrictions, rights of way, easements and other matters of public record acceptable to the Lender and specifically identified in the Title Policy;
• pre-printed exceptions (general and specific) and exclusions set forth in the Title Policy and acceptable to the Lender;
• rights of tenants (as tenants only) under leases (including subleases) pertaining to the Property;
• if the Mortgage Loan is cross-collateralized, the lien of the Mortgage for another Mortgage Loan contained in the same cross-collateralized group; and
• condominium declarations of record acceptable to the Lender and identified in the Title Policy, provided that none of items (a) through (f), individually or in the aggregate, materially interferes with the current marketability or principal use of the Property, the security intended to be provided by the Mortgage, or the current ability of the Property to generate net cash flow sufficient to service the Mortgage Loan or the Borrower’s ability to pay its obligations when they become due.
Person  Legal person, including an
• individual,
• estate,
• trust,
• corporation,
• partnership,
• limited liability company,
• financial institution,
• joint venture,
• association, or
• other organization or entity (whether governmental or private).

Synonyms
• Persons
• Person's

Personal Property  Furniture, fixtures, equipment, and other tangible personal property located on or used in connection with the Property.

PFP MBS  MBS backed by a PFP Mortgage Loan.

PFP Mortgage Loan  Mortgage Loan originally purchased as a Cash Mortgage Loan or held in Fannie Mae’s portfolio, but subsequently securitized as an MBS.

Synonyms
• PFP Mortgage Loans

PGA  Peak Ground Acceleration as determined by the United States Geological Survey.
Phase I ESA

Environmental report and site assessment performed according to the process described in current ASTM E 1527, including any report summarizing the conclusions of the assessment.

Synonyms
• Phase I Environmental Site Assessment
• Phase I ESAs

Phase II ESA

Investigation performed according to current ASTM E 1903, or investigation other than a Phase I ESA, that may include analyzing soil, ground water, or building materials for contaminants, including any report summarizing the conclusions of the assessment.

Synonyms
• Phase II Environmental Site Assessment

Phased Properties

Property that is one section of an existing or future complex and the Property is intended to be operated together with another property in the complex, and/or with shared access and amenities.

Synonyms
• Phased Property

PILOT

Payment In Lieu Of Taxes.

Synonyms
• PILOTs

Plan Number

Number identifying the applicable loan characteristics for any Mortgage Loan that accrues interest at a variable rate at any time during the loan term.

Synonyms
• Plan Numbers
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio Mortgage Loan</td>
<td>Mortgage Loan purchased by Fannie Mae and held as of a certain date regardless of whether it is a Cash Mortgage Loan or an MBS Mortgage Loan.</td>
</tr>
</tbody>
</table>
| **Synonyms**                            | • Portfolio Mortgage Loans  
• Portfolio Mortgage Loan's                                                                                                                                                                               |
| 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                                                                                                                                                                             |
| Pre-Review                              | Requirement that the Lender obtain Fannie Mae’s approval before Rate Lock of a Mortgage Loan.                                                                                                                |
| Pre-Review Mortgage Loan                | Mortgage Loan that is not delegated to you and requires Fannie Mae’s approval before Rate Lock.                                                                                                            |
| Preliminary Official Statement          | Initial disclosure document for prospective Bond purchasers containing terms, conditions, and information regarding the Bonds, the project, the Issuer, the Borrower and the credit enhancer.                        |
| **Synonyms**                            | • POS                                                                                                                                                    |
| Prepayment Premium                      | For a Mortgage Loan prepayment, amount the Borrower must pay in addition to the prepaid principal and accrued interest per the Loan Documents.                                                                    |
| **Synonyms**                            | • Prepayment Premiums  
• Prepayment Premiums                                                                                                                                         |
Prepayment Premium Option
Applicable Form 6104 series schedule to the Loan Agreement.

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

Preservation
Renewal or continuation of rent, income and/or occupancy restrictions on multifamily rental housing eligible as an MAH Property, but
• is potentially at risk of being lost from the affordable housing inventory through conversion to market-rate housing, and
• is not receiving new LIHTCs.

PRF
Account you hold accumulating principal amortization payments for variable rate Bond credit enhancements.

**Synonyms**
• Principal Reserve Fund

Pricing and Underwriting Tier
Tier 1, Tier 2, Tier 3, or Tier 4 per the Multifamily Underwriting Standards (Form 4660).

**Synonyms**
• Tier

Pricing Memo
Applicable DUS Pricing Memo or non-DUS Pricing Memo communicating pricing for various products and features.

**Synonyms**
• Pricing Memos
Primary Risk Mortgage Loan

Mortgage Loan where Fannie Mae bears all losses or where the Lender and Fannie Mae share losses.

**Synonyms**
- Primary Risk Mortgage Loans
- Primary Risk

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

Project

Multifamily buildings
- on multiple Properties,
- owned by the same Borrower, and
- that comply with Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership.

**Synonyms**
- Projects

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).

**Synonyms**
- Properties
- Property’s
<table>
<thead>
<tr>
<th>Property Condition Assessment</th>
<th>Assessment of the current physical condition and historical operation of the Property.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Synonyms</td>
<td>• PCA</td>
</tr>
<tr>
<td></td>
<td>• PNA</td>
</tr>
<tr>
<td></td>
<td>• Physical Needs Assessment</td>
</tr>
<tr>
<td></td>
<td>• PCAs</td>
</tr>
<tr>
<td>Q</td>
<td>Party occupying a dwelling unit in a Property in full compliance with a lease.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Qualified Occupants</td>
</tr>
<tr>
<td></td>
<td>• Qualified Tenant</td>
</tr>
<tr>
<td></td>
<td>• Qualified Tenants</td>
</tr>
<tr>
<td>R</td>
<td>Agreement between you and the Investor containing the terms of the Lender-Arranged Sale or Multifamily Trading Desk trade of the Mortgage Loan and the MBS terms and conditions relating to the underlying MBS, if applicable, which may be documented via a recorded telephone conversation.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Rate Locks</td>
</tr>
<tr>
<td>Rate Lock Period</td>
<td>Time from Rate Lock execution through the Settlement Date.</td>
</tr>
</tbody>
</table>
Real Estate Owned: A Property or interest in a Property acquired by Fannie Mae or on behalf of the MBS Trust, through a Foreclosure Event where title to a Property or interests in that Property are transferred to Fannie Mae or the MBS Trust.

Synonyms
• REO

Reduced Occupancy Affordable Rehabilitation Work: Aggregate repairs, replacements, or improvements being performed at the ROAR Property.

Synonyms
• ROAR Work

Refinance Interest Rate: Maximum interest rate that could be supported based on the UPB, required DSCR, and projected Net Cash Flow for the first year following the Maturity Date.

Synonyms
• Exit Interest Rate
• Exit Rate

Rehabilitation Reserve Account: Custodial Account established by the Lender and funded by deposits from the Borrower per the Rehabilitation Reserve Agreement to fund the Rehabilitation Work.

Rehabilitation Reserve Agreement: Borrower’s agreement to undertake identified Rehabilitation Work, the terms for funding the Rehabilitation Work, and the disbursement of funds from the Rehabilitation Reserve Account (e.g., Form 6222.Mod, Form 6222.Sub, or Form 4523).

Rehabilitation Work: Aggregate repairs, replacements, or improvements (including all Completion/Repairs) required to be performed and completed within a specified time period after the Mortgage Loan Origination Date for a Moderate Rehabilitation Property.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remarketing Agent</td>
<td>Person selected by the Issuer to reset the interest rate on the Bonds in order to resell any Bonds tendered by investors on the interest rate reset date.</td>
</tr>
<tr>
<td>REMIC</td>
<td>Real Estate Mortgage Investment Conduit</td>
</tr>
<tr>
<td>Remittance Date</td>
<td>The 18th day of each month (or the preceding Business Day if the 18th is not a Business Day) on which you must submit your remittance to Fannie Mae for the Mortgage Loan.</td>
</tr>
<tr>
<td>Rent-Stabilized Property</td>
<td>Property where rent increases on more than 50% of the residential units are limited by state or local statutory controls, not by an Affordable Regulatory Agreement.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Rent-Stabilized Properties</td>
</tr>
<tr>
<td>Replacement Reserve</td>
<td>Custodial Account funded during the Mortgage Loan term for major maintenance and replacing capital items per the Loan Documents.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Replacement Reserves</td>
</tr>
<tr>
<td>Replacement Reserve Agreement</td>
<td>The 4000 series Replacement Reserve and Security Agreement (Form 4606), or other agreement approved by Fannie Mae, that evidences the:</td>
</tr>
<tr>
<td></td>
<td>• Borrower’s agreement to replace identified capital items and perform required maintenance;</td>
</tr>
<tr>
<td></td>
<td>• terms for funding the identified capital item replacement and maintenance; and</td>
</tr>
<tr>
<td></td>
<td>• disbursement of Replacement Reserve funds.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Replacement Reserve Agreements</td>
</tr>
</tbody>
</table>
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;
• terms for funding the identified capital item replacement and maintenance; and
• disbursement of Replacement Reserve funds.

Synonyms
• Replacement Reserve Schedules

Request for Approval of Multifamily Servicing Transfer  Fannie Mae Form 630 required to obtain Fannie Mae's approval of a Lender-initiated servicing transfer of a Mortgage Loan.

Residential Condominium  Condominium Property where all units are residential.

Restabilized Residential Occupancy  Achievement of Underwritten NCF for 3 consecutive months after completion of the ROAR Work.

Restricted Liquidity Requirement  Amount to be held in the Restricted Liquidity Reserve per the Program Rules.

Synonyms
• Restricted Liquidity Requirements

Restricted Value  Appraised Value assuming a Property's Affordable Regulatory Agreement is in effect.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Retention Group</td>
<td>State-chartered insurance company created by the 1986 federal Liability Risk Retention Act, insuring commercial businesses and government entities against liability risks.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• RRG</td>
</tr>
<tr>
<td>ROAR Loan</td>
<td>Reduced Occupancy Affordable Rehabilitation Loan</td>
</tr>
<tr>
<td>ROAR Stressed NCF</td>
<td>Minimum Underwritten NCF projected to occur during the ROAR Work period at a ROAR Property.</td>
</tr>
<tr>
<td>S</td>
<td></td>
</tr>
<tr>
<td>Same Month Pooling</td>
<td>Delivery option permitting Mortgage Loans to be pooled and secure an MBS issued in the same month as the Mortgage Loan Origination Date.</td>
</tr>
<tr>
<td>SCP List</td>
<td>FHFA’s Suspended Counterparty Program list located at <a href="https://www.fhfa.gov">https://www.fhfa.gov</a>.</td>
</tr>
<tr>
<td>Secondary Risk Mortgage Loan</td>
<td>Mortgage Loan where the Lender bears all losses until the Lender’s recourse obligations are exhausted.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Secondary Risk Mortgage Loans</td>
</tr>
<tr>
<td></td>
<td>• Secondary Risk</td>
</tr>
<tr>
<td>Secured Overnight Financing Rate</td>
<td>For any Business Day, the Secured Overnight Financing Rate as published by the Federal Reserve Bank of New York, or any successor administrator, on the Federal Reserve Website.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• SOFR</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Securitized Mortgage Loan</td>
<td>Mortgage Loan backing an MBS, PFP MBS, or REMIC.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Securitized Mortgage Loans</td>
</tr>
<tr>
<td>Security</td>
<td>MBS, PFP MBS, or REMIC.</td>
</tr>
<tr>
<td>Security Balance</td>
<td>For each MBS Pool, the Issue Date Principal Balance less any MBS principal distribution amounts included in previous MBS monthly remittances.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Security Balances</td>
</tr>
<tr>
<td>Security Instrument</td>
<td>Instrument creating a lien or encumbrance on 1 or more Properties and securing the obligations under the Loan Documents.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Security Instruments</td>
</tr>
<tr>
<td></td>
<td>• Security Instrument's</td>
</tr>
<tr>
<td>Senior Mortgage Loan</td>
<td>Senior loan purchased by Fannie Mae.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Senior Mortgage Loans</td>
</tr>
<tr>
<td>Seniors Housing Major Renovation</td>
<td>Physical improvement at a Seniors Housing Property costing more than $20,000/unit, or $3 million in total project costs.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Seniors Housing Major Renovations</td>
</tr>
</tbody>
</table>
Seniors Housing Minor Renovation

Physical improvement at a Seniors Housing Property that is not a Seniors Housing Major Renovation, but which increases the number of units, or converts one type of unit (e.g., Independent Living, Assisted Living, or Alzheimer's/Dementia Care) into another, unless expressly permitted by the Loan Documents.

Synonyms
- Seniors Housing Minor Renovations

Seniors Housing Property

Multifamily residential rental property with any combination of Independent Living, Assisted Living, Alzheimer's/Dementia Care, or Skilled Nursing units.

Synonyms
- Seniors Housing

Servicer

Primary Person servicing the Mortgage Loan, including
- the originator,
- seller, or
- a third party.

Synonyms
- Servicers
- Servicer's
Servicing Advance
All amounts required to be paid by the Borrower, for
• all taxes and assessments against each Property,
• all insurance premiums for insurance for each Property
to insurance carrier(s) acceptable to Fannie Mae, in
accordance with the Guide, and
• any other payment, as determined by Fannie Mae,
necessary to preserve and protect the Property or to
exercise any legal or equitable remedies (other than
foreclosure) against the Borrower or the Property
(including attorney, appraisal, or other professional fees)
or any other obligations relating to the Property as set
forth in the Loan Documents.

Synonyms
• Servicing Advances

Servicing Fee
Fee a Servicer receives for collecting
payments, managing operational procedures, and
assuming your portion of credit risk for a Mortgage Loan,
and which may be expressed as a percentage.

Synonyms
• Servicing Fees

Servicing File
Your file for each Mortgage Loan serviced.

Synonyms
• Servicing Files

Servicing Transfer Memo
Document containing the data and documentation
needed to engage counsel and commence foreclosure
proceedings (e.g., Form 4808).
Shared Use Documents  Agreements benefiting and/or burdening a Shared Use Property, such as:
• reciprocal easement agreements (REA);
• declaration of covenants;
• conditions and restrictions (CCR);
• development agreements;
• shared use agreements;
• joint ownership agreement or similar agreements governing homeowners’ associations (HOAs);
• planned unit developments (PUDs); or
• other common interest arrangements or planned developments.

Shared Use Property  Property subject to Shared Use Documents:
• benefiting the Property by granting the right to use Essential Elements on common areas created by, or other properties subject to, the Shared Use Documents, and/or
• burdening the Property by:
  - subjecting it to:
    ▪ property-use or other restrictive covenants;
    ▪ fees or assessments; or
    ▪ maintenance obligations; or
  - allowing other parties subject to the Shared Use Documents the right to use the Essential Elements located on the Property.

Short Term Rental  Property permitting leases or master leases (including subleases, licenses, and other possessory interests, whether oral or written) of an individual dwelling unit where the intended occupancy of the unit is for less than 30 days, regardless of the stated lease term, such as through a peer-to-peer online marketplace or homestay network (e.g., Airbnb, VRBO®, etc.).

Synonyms
• STR
• STRs
SIFMA Municipal Swap Index
The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index.

Skilled Nursing
Seniors Housing Property with units that are highly regulated and provide 24-hour resident supervision and registered nursing care services.

Small Mortgage Loan
Mortgage Loan with an original loan amount less than or equal to $9 million.

Synonyms
• Small Mortgage Loans

SNDA
Subordination, Non-Disturbance and Attornment Agreement

Solar Photovoltaic System
A renewable energy system located on the Property that converts sunlight into electricity and/or a battery storage system containing lithium ion batteries or equivalent technology capable of storing electricity received from the electric grid or a renewable energy system and delivering stored electricity to the Property.

Synonyms
• Solar PV System

Source of Income Protections
Laws prohibiting multifamily housing providers from
• offering adverse terms and conditions, or
• refusing to lease to individuals or families based on their lawful source of income, including Housing Choice Vouchers.

Special Asset Management Team performing Fannie Mae’s Special Servicing that can be contacted at multifamily_sam@fanniemae.com.

Synonyms
• SAM
• Multifamily Special Asset Management
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Flood Hazard Area</td>
<td>Special Flood Hazard Area designated by FEMA.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• SFHA</td>
</tr>
<tr>
<td>Special Servicer</td>
<td>Servicer (which may be Fannie Mae, the Servicer, or a third-party special servicer contracted by Fannie Mae) responsible for implementing the loss mitigation actions for a Non-Performing Mortgage Loan.</td>
</tr>
<tr>
<td>Sponsor</td>
<td>Principal equity owner and/or primary decision maker of the Borrower (often the Key Principal or the Person Controlling the Key Principal).</td>
</tr>
</tbody>
</table>
| **Synonyms**                      | • Sponsors  
• Sponsor's |
<p>| Sponsor-Initiated Affordability    | Voluntary rent and income restrictions recorded against the Property by the Borrower to preserve or create multifamily affordable housing.    |
| Stabilized Residential Occupancy  | Percentage of Property units physically occupied by Qualified Occupants, per Part II, Chapter 1: Attributes and Characteristics, Section 105.02: Qualified Occupants as adjusted for the applicable Part III products and features. |
| Standby                           | Credit enhancement under which Fannie Mae makes principal and interest payments directly to the Bond Trustee (for payment to bondholders) if the Borrower fails to make required mortgage note payments or if a bankruptcy event has occurred. |</p>
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Streamlined Rate Lock</td>
<td>Optional process permitting a Rate Lock before completing full Mortgage Loan underwriting, per Part IV, Chapter 3: Streamlined Rate Lock.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td></td>
</tr>
<tr>
<td>• SRL</td>
<td></td>
</tr>
<tr>
<td>Structured Transaction Approval</td>
<td>Fannie Mae approval of a Structured Transaction outlining the terms, conditions, pricing, and fees.</td>
</tr>
<tr>
<td>Structured Transaction Loan Documents</td>
<td>Documents executed for a Structured Transaction, including a Master Credit Facility or Bulk Delivery Agreement, an Interest Rate Hedge Agreement, and all other required Loan Documents.</td>
</tr>
<tr>
<td>Student Housing Property</td>
<td>A multifamily residential rental property in which 40% or more, but less than 80%, of the units are leased to either undergraduate or graduate students.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td></td>
</tr>
<tr>
<td>• Student Housing</td>
<td></td>
</tr>
<tr>
<td>Subordinate Loan</td>
<td>Multifamily residential real estate loan secured by a Lien against the Property having a lesser priority than the Lien securing another multifamily residential real estate loan on the same Property.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td></td>
</tr>
<tr>
<td>• Subordinate Loans</td>
<td></td>
</tr>
<tr>
<td>Supplemental Mortgage Loan</td>
<td>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.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td></td>
</tr>
<tr>
<td>• Supplemental Mortgage Loans</td>
<td></td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-----------------------------</td>
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</tr>
<tr>
<td>Suspicious Activity Report</td>
<td>Report made by a financial institution to the Financial Crimes Enforcement Network (FinCEN), regarding suspicious or potentially suspicious activity.</td>
</tr>
<tr>
<td>T</td>
<td></td>
</tr>
<tr>
<td>T&amp;I Custodial Account</td>
<td>Custodial Account for the deposit of T&amp;I and other impound escrow funds.</td>
</tr>
<tr>
<td>T&amp;I Impositions</td>
<td>Amounts for taxes, insurance, and other charges assessed against or owing on the Property which you deem necessary to protect the Property and/or prevent Liens imposed on it.</td>
</tr>
<tr>
<td>Taxable Tail</td>
<td>Taxable debt secured by the Property securing the Credit Enhancement Mortgage Loan.</td>
</tr>
<tr>
<td>Taxes and Insurance</td>
<td>Taxes or assessments that may become a Lien on the Property and insurance premiums.</td>
</tr>
</tbody>
</table>

**Synonyms**

- SAR
- T&I Custodial Accounts
- T&I Imposition
- T&I
- Tax and Insurance
Tenant Site Lease Protections

MH Site Lease with the Homeowner or tenant of a Manufactured Home with:
• a 1-year renewable (at the MH Site Lease tenant’s election) lease term, unless good cause for nonrenewal exists;
• a minimum 30-day written notice of rent increases;
• 5-day minimum grace period for non-payment of rent, and the right to cure rent payment defaults within the specified cure period (or 10 days if no cure period is specified);
• the Homeowner’s right to:
  - sell the Manufactured Home without first relocating it out of the MH Community;
  - sublease or assign the MH Site Lease (for the remaining unexpired term), if the Manufactured Home purchaser satisfies the MH Community’s
    • rules and regulations, and
    • then-applicable credit and background check requirements;
  - post “for sale” signs on the MH Site per the MH Community’s rules and regulations; and
  - sell the Manufactured Home in place within 45 days after eviction, while the Manufactured Home remains on site and connected to public and private utilities; and
• at least 60-days notice before any planned MH Community sale or closure.

Third Party MBS Investor

MBS Investor for an MBS Mortgage Loan that is not the Multifamily Trading Desk.

Synonyms
• Third Party MBS Investor's

Third Party MBS Trading Agreement

Arrangement between you and a Third Party MBS Investor to trade MBS per Part IV, Chapter 2: Rate Lock and Committing, Section 201.02: Trading Agreements.
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 resulting in a change in the ownership of the Borrower or Property.

**Synonyms**
• Transfers/Assumptions

U

**UCC**

Uniform Commercial Code

**Underwriting Value**

Value of the Property determined by the Lender to size the Mortgage Loan per Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation.

**Underwritten Debt Service Coverage Ratio**

Ratio of Underwritten Net Cash Flow to the annual debt service for a Mortgage Loan amount based on a level debt service payment with the applicable amortization, and calculated per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis, as adjusted for the applicable products and features in Part III.

**Synonyms**
• Underwritten DSCR
<table>
<thead>
<tr>
<th><strong>Underwritten Net Cash Flow</strong></th>
<th>Net Cash Flow as adjusted by the Lender per <strong>Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis</strong> and the applicable products and features in Part III.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Underwritten NCF</td>
</tr>
<tr>
<td><strong>Underwritten Net Operating Income</strong></td>
<td>Net Operating Income as adjusted by the Lender per <strong>Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis</strong> and the applicable products and features in Part III.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Underwritten NOI</td>
</tr>
<tr>
<td><strong>Unrestricted Value</strong></td>
<td>Appraised Value assuming a Property's Affordable Regulatory Agreement is not in effect.</td>
</tr>
<tr>
<td><strong>UPB</strong></td>
<td>Unpaid Principal Balance</td>
</tr>
<tr>
<td><strong>USPAP</strong></td>
<td>Uniform Standards of Professional Appraisal Practice</td>
</tr>
<tr>
<td><strong>V</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Variable Underwriting Rate</strong></td>
<td>Rate for Structured ARM Mortgage Loans per <strong>Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1202: Underwriting.</strong></td>
</tr>
<tr>
<td><strong>W</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Watchlist</strong></td>
<td>The risk rating classification if you or Fannie Mae determine the Mortgage Loan has heightened credit risk.</td>
</tr>
<tr>
<td><strong>Wholly-Owned Condominium</strong></td>
<td>Residential Condominium Property where the Borrower owns 100% of the units.</td>
</tr>
<tr>
<td><strong>Y</strong></td>
<td></td>
</tr>
</tbody>
</table>
Yield Maintenance Period End Date

Last day on which a Borrower owes yield maintenance for a voluntary Mortgage Loan prepayment.

**Synonyms**

• Yield Maintenance Period End Dates