



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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## Chapter 7 Variable Rate to Fixed Rate Conversions

### 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.

| For conversion of...  | You must...  |
|---|--|
| An ARM Loan or a SARM Loan to a fixed rate                                | Comply with this Chapter.  |
| A variable rate Mortgage Loan in a Structured Transaction to a fixed rate | Comply with <a href="#">Part IV, Chapter 2: Rate Lock and Committing</a> .                             |
| A Hybrid ARM Loan to the adjustable rate term                             | Comply with <a href="#">Part III, Chapter 13: Hybrid Adjustable Rate Mortgage (Hybrid ARM) Loans</a> . |
| A variable rate Credit Enhancement Mortgage Loan to a fixed rate          | Comply with Part XIV of the DUS Guide.   |

#### 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

### Requirements

| To convert...                                | You must...  |
|--|--|
| A Mortgage Loan to a fixed rate              | Confirm the Minimum Conversion Debt Service Ratio (per the Interest Rate Conversion Agreement) is met.   |
| A Supplemental Mortgage Loan to a fixed rate | Confirm the Minimum Conversion Debt Service Ratio is met using the sum of <ul style="list-style-type: none"><li>• 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</li><li>• the annual debt service of the converted fixed rate Supplemental Mortgage Loan.</li></ul> |

## 702.03 Conversion Criteria

### Requirements

You must comply with the following table.

| Criteria       | You must...  |
|----------------|--|
| DUS Gateway    | Enter delegated and non-delegated conversions in DUS Gateway.                          |
| Effective Date | Ensure the conversion is effective on a payment date (i.e., the 1st day of the month). |



| Criteria            | You must...  |
|---------------------|--|
| Conversion Timeline | <ul style="list-style-type: none"> <li>• For an ARM Loan, exercise the conversion               <ul style="list-style-type: none"> <li>- after the 1st Loan Year, and</li> <li>- up to, and including, the last day of the 5th Loan Year.</li> </ul> </li> <li>• For a SARM Loan, exercise the conversion               <ul style="list-style-type: none"> <li>- after the 1st Loan Year, and</li> <li>- up to, and including, the 1st day of the 3rd month before the Maturity Date.</li> </ul> </li> </ul> |
| Loan Term           | Convert to a fixed rate Mortgage Loan with a loan term <ul style="list-style-type: none"> <li>• greater than or equal to 7 years, and</li> <li>• less than or equal to 10 years.</li> </ul>  |
| Underwriting        | Underwrite the conversion as follows: <ul style="list-style-type: none"> <li>• Base actual DSCR on the trailing 12-month period from the most recent supportable actual operations per the Borrowers Property financial statements.</li> <li>• Ensure actual DSCR meets the minimum required DSCR for a fixed rate Mortgage Loan at the same Pricing and Underwriting Tier as the original ARM Loan or SARM Loan.</li> <li>• Comply with the Loan Documentation Requirements (Form 6000).</li> </ul>         |

**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.

| For ARM Loans and SARM Loans with...   | The fixed rate amortization term will be...   |
|--|---|
| Full-term interest-only  | 360 months.   |
| <ul style="list-style-type: none"> <li>• Partial interest-only or amortization,</li> <li>• a fixed rate term greater than or equal to the original ARM Loan or SARM Loan term, and</li> <li>• a most recent Property condition rating of 1 or 2</li> </ul> | 360 months.   |
| Other characteristics  | equal to <ul style="list-style-type: none"> <li>• the original ARM Loan or SARM Loan amortization term (in months), minus</li> <li>• the number of monthly payments (P&amp;I or interest-only) since the Mortgage Loan Origination Date.</li> </ul> |

**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 to Fixed Rate Conversions, 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.

| You must...  | Fannie Mae will...  |
|--|---|
| <ul style="list-style-type: none"> <li>• Issue a new fixed rate MBS Pool after completing the conversion process.</li> <li>• Deliver the converted fixed rate Mortgage Loan to Fannie Mae under the new confirmed Commitment.</li> <li>• Ensure the MBS trade has a Book-Entry Date no later than:               <ul style="list-style-type: none"> <li>- the 17th day of the month of the Conversion Effective Date for an MBS ARM Loan or SARM Loan; or</li> <li>- the 10th day of the month of the Conversion Effective Date for a Cash ARM Loan or SARM Loan.</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Issue the new fixed rate MBS.</li> <li>• For a variable rate Cash Mortgage Loan, place it into the MBS trade assignment account.</li> <li>• 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.</li> <li>• Deposit the funds from the MBS trade into your applicable P&amp;I Custodial Account.</li> </ul> |

### 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.



# Glossary

## A

Adjustable Rate  
Mortgage Loan

Mortgage Loan with an interest rate that periodically adjusts based on an Index per the Note or Loan Documents.

**Synonyms**

- ARM Loan
- Adjustable Rate Mortgage Loans
- ARM Loans

## B

Book-Entry Date

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.

**Synonyms**

- Book-Entry Delivery Date
- Settlement Date

Borrower

Person who is the obligor per the Note.

**Synonyms**

- Borrowers
- Borrower's

## C

Cash Mortgage Loan

Mortgage Loan purchased by Fannie Mae in exchange for cash.

**Synonyms**

- Cash Mortgage Loans



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

**Synonyms**

- Committed
- Commitments

**Credit Enhancement Mortgage Loan** Mortgage Loan underwritten and serviced by the Lender and financed by the issuance of Bonds where Fannie Mae is providing a Credit Enhancement Instrument.

**Synonyms**

- Credit Enhancement Mortgage Loans

## **D**

**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

**DocWay** Business-to-business electronic documentation delivery application, or any successor system.

**DUS** Delegated Underwriting and Servicing

**DUS Gateway** Multifamily pre-acquisition system including deal registration, Pre-Review and/or waiver tracking, decision records, or any successor systems.



## G

Gross Note Rate Interest rate stated in the Loan Documents.

Guaranty Fee Fee retained by Fannie Mae for credit enhancing a Mortgage Loan or assuming credit risk on a Mortgage Loan.

### **Synonyms**

- Guaranty Fees

Guide Multifamily Selling and Servicing Guide and Delegated Underwriting and Servicing Guide, including any exhibits, appendices, or other referenced forms, as updated, amended, restated, modified, or supplemented; however, for any topic in the Multifamily Selling and Servicing Guide, that Guide shall control unless a Lender Contract specifies another Guide.

### **Synonyms**

- DUS Guide

## H

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

### **Synonyms**

- Hybrid ARM Loans

## I

Interest Rate Conversion Agreement Document describing the terms and conditions when a Mortgage Loan interest rate may convert from an adjustable rate to a fixed rate.

## L



|                                 |   |
|---------------------------------|---|
| Limited Power of Attorney       | 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.   |
| Loan Documentation Requirements | Loan Documents listed in <a href="#">Form 6000</a> applicable to the particular Mortgage Loan execution and/or product and features.  |
| Loan Documents                  | <p>All documents evidencing, securing, or guaranteeing the debt obligation executed for a Mortgage Loan and approved by Fannie Mae.</p> <p><b>Synonyms</b></p> <ul style="list-style-type: none"><li>• Loan Document</li><li>• Mortgage Loan Document</li><li>• Mortgage Loan Documents</li></ul> |
| 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.   |
| <b>M</b>                        |   |
| Maturity Date                   | <p>Date all amounts due and owing under the Mortgage Loan become fully due and payable per the Loan Documents.</p> <p><b>Synonyms</b></p> <ul style="list-style-type: none"><li>• Maturity Dates</li></ul>  |
| MBS                             | Mortgage-Backed Security  |
| MBS Investor                    | For MBS Mortgage Loans, either a Third Party MBS Investor for Lender-Arranged Sales, or the Multifamily Trading Desk.   |



MBS Pool

MBS Security backed by MBS Mortgage Loans.

**Synonyms**

- MBS Pools

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

Multifamily Acquisitions

Team that can be contacted at [mf\\_acquisitions@fanniemae.com](mailto:mf_acquisitions@fanniemae.com).



## Multifamily Certification and Custody

Team responsible for taking custody of and certifying Mortgage Loans that can be contacted at

- [multifamcert\\_team@fanniemae.com](mailto:multifamcert_team@fanniemae.com),
- (800) 940-4646, or
- for submissions:

Fannie Mae (Multifamily)  
New Loan Submission  
13150 Worldgate Drive  
Mail Stop: 5H-2W/01  
Herndon, VA 22070.

### **Synonyms**

- DDF
- Document Delivery Facility
- Document Delivery System

## **N**

### 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

## **P**

### P&I

Principal and interest

### P&I Custodial Account

Custodial Account for principal and interest deposits.

### **Synonyms**

- P&I Custodial Accounts





## 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

## 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

## Property

Multifamily residential property securing the Mortgage Loan and including the land (or Leasehold interest in land), Improvements, and personal property (as defined in the Uniform Commercial Code).

### **Synonyms**

- Properties
- Property's

# R



**Rate Lock** 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.

**Synonyms**

- Rate Locks

**S**

**Security Instrument** Instrument creating a lien or encumbrance on 1 or more Properties and securing the obligations under the Loan Documents.

**Servicer** Primary Person responsible for servicing the Mortgage Loan (e.g., the originator, the selling Lender, or a third-party servicer).

**Synonyms**

- Servicers

**Servicing Fee** Fee a Servicer receives for collecting payments, managing operational procedures, and assuming your portion of credit risk for a Mortgage Loan.

**Synonyms**

- Servicing Fees

**Servicing File** File for each Mortgage Loan serviced by the Lender.

**Synonyms**

- Servicing Files



Supplemental Mortgage  
Loan

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

**Synonyms**

- Supplemental Mortgage Loans

**U**

UPB

Unpaid Principal Balance