Multifamily Selling and Servicing Guide

Effective as of July 1, 2020

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Part II Property

Chapter 1 Attributes and Characteristics

Section 101 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;
- has suitable bathroom and cooking facilities located 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: Multiple Parcels;
- 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, plumbing, 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.

Section 102 Multiple Parcels

Requirements

When a Property consists of non-contiguous multiple parcels, the multifamily units on each parcel must individually:

- comply with the minimum occupancy requirements in Part II, Chapter 1: Attributes and Characteristics, Section 105: Minimum Occupancy, orPart 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 PCA.

Guidance

When a Property consists of non-contiguous multiple parcels, you should also consider whether the Property:

- has historically, and will continue to, operate as a single project;
- if separated by a major thoroughfare primarily intended for traffic traveling through the area (rather than a street primarily intended to provide access to the Property), can be managed effectively by the Borrower;
- has amenities located on any parcel that are available to all Property tenants;
- has reciprocal agreements and easements in place; and
- is adversely affected by material differences in rent among the parcels.

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 operation or value of the Property.

104.02 Ground Lease Rents

☑ Requirements

You must establish an escrow for ground rents and ensure that the Borrower deposits sufficient funds for you to make all payments due under the Ground Lease.

104.03 Ground Lease Estoppel Certificate

☑ Requirements

You must obtain a Ground Lessor Estoppel Certificate that:

- follows Modifications to Multifamily Loan and Security Agreement (Ground Lease Defaults) (Form 6206); and
- includes any provisions required by Form 6479 that are not already contained in the Ground Lease.

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 that the Property meets the following minimum occupancy levels:

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

These minimum levels apply at the time of the Commitment and for the preceding 3-month period.

105.02 Qualified Occupants

Requirements

When calculating occupancy, you must only include tenants who

- physically occupy the unit, and
- are 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

For any Property with construction or rehabilitation work completed within the last 12 months, you must:

- ensure that all units have a certificate of occupancy;
- obtain copies of all certificates of occupancy from the Borrower; and
- retain them in your Servicing File.

For all other Properties, you must:

- determine whether each unit had a certificate of occupancy at some point;

- attempt to obtain copies of all certificates of occupancy; and
- retain them in your Servicing File.

Guidance

If you are unable to obtain copies of certificates of occupancy for a Property (for example, because of the age of the Property or the records of the jurisdiction where it is located), you should look for other evidence that certificates of occupancy had been issued.

If you cannot obtain a copy or other sufficient evidence of a certificate of occupancy, you should analyze the risk to the Property if one had never been issued, by considering whether:

- 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.

You should exclude the income generated by any units without a certificate of occupancy but include all expenses (including replacement reserves) for the maintenance of such units.

Section 107 Phased Properties

Requirements

If the Property is a Phased Property, you must evaluate

- how the Property will be affected by other phases of the complex, and
- whether the Property will be able to succeed independently from other phases.

Guidance

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

- its ownership and operation are separate from all other phases of the complex;
- the Borrower is able to provide a separate leasing office for the Property;
- your underwriting has discounted any benefits derived from staff or

facilities that the Property shares with other phases;

- the records and accounts used to underwrite the Property are separate from the records and accounts of other phases;
- the Property is marketable to tenants or a new owner, separately from other phases;
- the Property is visible to the public without passing through another phase of the complex;
- the Property is accessible from a public roadway;
- any cross-easements for the complex will survive an adverse action against another phase; and
- any development of a future phase could materially interfere with or disturb the occupancy, marketability, or living environment of the Property.

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; and
- the Mortgage Loan must have a Prepayment Premium Period End Date that is on or before the Prepayment Premium Period End Date of the other 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 Commercial Leases

108.01 Material Commercial Leases

108.01A Lease Review

Requirements

You must analyze all aspects of each Material Commercial Lease and the tenants. Tenant refers to each tenant, grantee, or other beneficiary of the Material Commercial Lease.

If Material Commercial Lease approval is required by the terms of Part II, Chapter 1: Attributes and Characteristics, Section 108.01B: 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 the following questions:

- Does each tenant have the ability to fulfill its financial and other performance obligations under the Material Commercial Lease?
- Are the insurance provisions of the Material Commercial Lease consistent with the insurance requirements in the applicable Loan Documents or otherwise prescribed by Fannie Mae?
- Is each tenant required to obtain the Lender's consent before making any assignment, sublease, subcontracting, or other transfer of the Material Commercial Lease?
- Does the tenant have early termination clauses and if so, what are the conditions under which the tenant can terminate? For example,
  - if there is 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.

108.01B Lease Approval

Requirements

Material Commercial Lease Type	
Lease with Property Assessed Clean Energy (PACE) Financing	You must not approve any Material Commercial Lease that includes PACE financing.

Material Commercial Lease Type	
Other Material Commercial Leases	You must only approve other Material Commercial Leases if they comply with Part II, Chapter 1: Attributes and Characteristics, Section 108: Commercial Leases.

Guidance

Material Commercial Lease Type	
Solar Power or Other Power Generation Lease	You may underwrite and approve a solar power, thermal power generation, or co-power generation Material Commercial Lease and any related power purchase agreement.

108.01C Lease Modifications

Requirements

As you review each Material Commercial Lease modification, you must consider the following questions:

- Does it violate any of the requirements of this Section?
- Does it contain terms that are inconsistent with the Mortgage Loan?
- Does it present risks that are inappropriate for the Mortgage Loan?

If the answer to any of these questions is "yes", then 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).

108.01D Tenant Estoppel Certificate

Requirements

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

108.01E Subordination, Non-Disturbance and Attornment

Requirements

You must:

- evaluate whether an SNDA (Form 6415) is necessary to provide for subordination and attornment or would be beneficial for other reasons; and
- use Form 6415 if the Material Commercial Lease contains provisions for the Borrower to assume liability or other risks as landlord that would not be acceptable to the Lender in case of a Foreclosure Event.

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.

108.02 Non-Material Commercial Leases

108.02A 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.

108.02B Non-Material Commercial Lease Types

☑ Requirements

Non-Material Commercial Lease Type	
Telecommunications and Cell Tower Leases	You must review any telecommunications and cell tower lease to ensure that it does not: • comprise more than 5% of the Propertys Effective Gross Income; • negatively impact the value, visibility, livability, or marketability of the Property; • impose an undue financial or operating burden on the Property or the Borrower; • obligate the Borrower to rebuild any Improvements at the Property following a casualty or condemnation; • have a lease term (including extension options) in excess of 25 years; • contain a purchase option; or • 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.).

Non-Material Commercial Lease Type	
Communications Service Agreement	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	
Mineral Rights; Oil and Natural Gas Leases	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: • comprise more than 5% of the Propertys Effective Gross Income; • grant surface entry for any purpose (e.g., pipes, access across, or storage on the Property); • grant subsurface rights within 250 feet below the surface of the Property, or within 600 feet from any Property boundary line; • have a material adverse effect on public health and safety, air quality or noise levels, or on the marketability or occupancy of the Property; • permit oil or gas well activities that could have a negative effect on access, visibility, or storm water drainage at the Property; • have a negative effect on the zoning or allowable density of the Property; • 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. 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	
Laundry Lease	You do not need to subordinate the lease to the Lien of the Security Instrument if you confirm that the lease: • is not with an Affiliate of the Borrower or any Key Principal or Principal; • has market terms; • contains an acceptable termination for cause provision; and • meets recognized industry standards.
Equipment or Related Maintenance Services Lease	You must ensure that the lease: • is subordinate to the Security Instrument; • contains an acceptable termination for cause provision; and • meets recognized industry standards.

Guidance

Non-Material Commercial Lease Type	
Storage Unit Lease	You do not need to subordinate the lease to the Lien of the Security Instrument if you determine that the unit is being leased pursuant to a residential Lease.

108.03 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:

- 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;
- Borrower's strategy for implementing STR;
- whether the STR units are furnished or unfurnished;
- confirmation that the STR is legally permissible and in compliance with applicable laws and zoning;
- confirmation that the Borrower's or master tenant's insurance covers any STR; and
- confirmation that the 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 109 Oil/Gas Wells and Mineral Exploration

109.01 Active Oil and Gas Wells

Requirements

You must ensure that 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 mineral, oil, or gas 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;
  - the mineral, oil, or gas 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;
  - the adjacent property is not owned by an Affiliate of the Borrower; and
  - either:
    - there is no history of spills or leaks; 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 mineral, oil, or gas production, exploration, or extraction;
- actively storing or processing mineral, oil, or gas; or
- pits, ponds, or lagoons associated with oil and gas exploration or production.

109.02 Inactive Oil and Gas Wells

Requirements

You must ensure that 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 108.02B: 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.

Section 110 Property Management and Agreement

110.01 Property Management

Requirements

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

Guidance

Fannie Mae does not require an independent, professional management company. However, when analyzing Property management, you should consider whether the management team:

- has adequate experience to ensure effective administration, leasing, marketing, and maintenance of the Property; and
- is staffed appropriately for the type and size of the Property and the services provided.

110.02 Property Management Agreement

Requirements

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

- that the Borrower has a written management agreement with a Property management company that allows for cancellation by the Lender without penalty or prior notice in case of a Borrower default under the Mortgage Loan; or
- the Borrower and Property manager complete the Assignment of Management Agreement (Form 6405).

Guidance

You should ensure that the Property management agreement clearly states

- the responsibilities of the Property manager, and

- the amount of the management fee (or describes the method for determining the fee).

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.

201.02A Appraiser Role and Qualifications

Requirements

You must:

- Provide the appraiser with all documents needed to accurately assess the value of the Property.
- Ensure the appraiser:
  - provides a complete, accurate description of the Property and the market;
  - provides an opinion of the market value of the Property, 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, under applicable state law.

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

- Acts independently.
- Does not participate in the Mortgage Loan approval.
- 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.

If the Appraisal Date is more than 12 months before the Commitment Date, then a new Appraisal of the Property is required.

Guidance

For an Appraisal that is dated less than 12 months before the Commitment Date, you may have the appraiser provide an update that complies with USPAP guidelines, dated within 6 months of the Commitment Date.

201.02C Appraised Value

Requirements

You must ensure that the appraiser provides an opinion of the market value of the Property on an "as is" basis.

You may also request that the appraiser provide an opinion of the market value of the Property 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 when the Borrower acquired 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 concur that the improvements will add value to the Property;
- all capital improvements are included in either the Completion/Repair

Agreement or the 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 to account 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
- the sum of:
  - the Property acquisition price;
  - the cost of capital improvements or repairs which increase the value of the Property, if
    - they are completed and fully paid, or
    - sufficient funds to complete them are deposited in an escrow or reserve account; and
  - actual acquisition costs, not to exceed 3% of the acquisition price, such as:
    - loan origination fees;
    - appraisal fees;

- title search fees;
- title insurance fees;
- survey fees;
- taxes;
- deed-recording fees; and
- credit report charges.

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 circumstances particular to the Property. Therefore, when calculating the Underwritten NCF, you should:

- Use both objective and subjective measures to determine the revenue generated and the expenses incurred at the Property.
- Use the best information available, including historical Property performance and anticipated Property operations.
- Use your best efforts to obtain operating statements for the previous 3 years.
- Obtain the prior full-year operating statement or, at a minimum, an operating statement covering the trailing 6 months (annualized).
- Consider whether 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 circumstances particular to the Property.

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.

REQUIRED UNDERWRITTEN NCF (CONVENTONAL LOANS)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		
1		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 under 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 (CONVENTONAL LOANS)		
Item	Function	Description
5	MINUS	Concessions - the aggregate amount of forgone residential rental income resulting from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc.[1]
6	MINUS	Bad debt - the aggregate amount of unpaid rental income determined to be uncollectable: include any adjustments to other Income for bad debt.[1]
	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, as long as 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 whether there was any decline 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 downward the NRI 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.

REQUIRED UNDERWRITTEN NCF (CONVENTONAL LOANS)		
Item	Function	Description
CALCULATION OF OTHER INCOME		
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 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), as long as 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.
CALCULATION OF COMMERCIAL INCOME		
8	PLUS	Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable).
9	PLUS	Actual income from STR units.
10	MINUS	10 % of the actual commercial income (total of Items 8 plus 9).[3]

REQUIRED UNDERWRITTEN NCF (CONVENTONAL LOANS)		
Item	Function	Description
3 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.		
11	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.
12	PLUS	Corporate premiums, provided that this income must: • not be included for more than 10% of the Propertys 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.
13	PLUS	Laundry and vending.
14	PLUS	Parking - income from residential parking/garage spaces.

REQUIRED UNDERWRITTEN NCF (CONVENTONAL LOANS)		
Item	Function	Description
15	PLUS	All other income,include 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 (CONVENTONAL LOANS)		
Item	Function	Description
16	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 Borrowers 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. All expenses associated with STR must be underwritten in their respective expense line items. These expenses include cleaning, furnishing, and repairs.
16 (a)	MINUS	Property management fee equal to the greatest of: • 3 % of EGI[4]; • 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 (CONVENTONAL LOANS)		
Item	Function	Description
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.		
16 (b)	MINUS	Real estate taxes based on the greatest of: • 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 greater of - the Mortgage Loan amount, or - the assessed value, - multiplied by the millage rate plus any special assessments. You must consider any automatic tax reassessment upon acquisition in the next 12-month period. If the Property has real estate tax abatements, exemptions, or deferrals, 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, or deferral benefit (i.e., it is tied to the Property and not the owner).

REQUIRED UNDERWRITTEN NCF (CONVENTONAL LOANS)		
Item	Function	Description
16 (b) continued	MINUS	If the timeframe for the real estate tax abatement, exemption, or deferral is shorter than the Mortgage Loan term, 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.
16 (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.
16 (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.
16 (e)	MINUS	Water and sewer.

REQUIRED UNDERWRITTEN NCF (CONVENTONAL LOANS)		
Item	Function	Description
16 (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.

REQUIRED UNDERWRITTEN NCF (CONVENTONAL LOANS)		
Item	Function	Description
16 (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.

REQUIRED UNDERWRITTEN NCF (CONVENTONAL LOANS)		
Item	Function	Description
16 (h)	MINUS	Advertising and marketing, including the following: • apartment finder/guide; • banners; • brochures; • building signage; • finders fee; • media commissions; • newspaper ads; • promotions; • resident relations; • signage; • supplies (marketing); • tenant relations; • Yellow Pages; and • other.
16 (i)	MINUS	Professional fees, including the following: • accounting or tax preparation fees; • architectural fees; • attorney fees; • bookkeeping fees; • engineering fees; • legal fees/expense; • professional fees; and • other.

REQUIRED UNDERWRITTEN NCF (CONVENTONAL LOANS)		
Item	Function	Description
16 (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 (CONVENTONAL LOANS)		
Item	Function	Description
16 (j) continued	MINUS	• mileage; • miscellaneous general and administrative expenses; • model apartment; • moving expense; • office supplies; • office unit (non-revenue unit); • permits; • personal p roperty taxes; • postage; • printing; • public relations; • rental commissions; • rental expense; • security; • security vehicle and maintenance vehicle; • space designs and drawings; • subscription dues; • telephone; • travel; • truck repairs; • uniform service; • utility vehicle; • vehicle lease; • vehicle repair and expense; and • other.

REQUIRED UNDERWRITTEN NCF (CONVENTONAL LOANS)		
Item	Function	Description
16 (k)	MINUS	Other expenses, including the following: • ancillary expense; • franchise taxes and fees; • general building; • miscellaneous; • on-going costs associated with any Interest Rate Cap Agreement; • other expenses/costs; and • for STR, - taxes, fees, etc. imposed by the governing jurisdiction, and - if applicable, the difference in actual lease STR income and an equivalent market rate apartment rent (as if leased as an apartment unit). 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; • owners draw; • partnership fees; • principal payments on any loan; • sales tax paid; and • trust account fees.

REQUIRED UNDERWRITTEN NCF (CONVENTONAL LOANS)		
Item	Function	Description
17	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
18	MINUS	Replacement Reserve expense, including • a minimum annual amount of $200 per unit, or • a greater amount if required in Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve. Replacement Reserveexpense 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.

Item	Function	Description
1		Underwritten NCF per Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF).
2	DIVIDED BY	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.

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:

- Analyze the ability of the Borrower to refinance the Mortgage Loan.
- Calculate the following:
  - a “reversion” cap rate, which is the expected capitalization rate that could be supported based on the projected NCF for the first year following the Mortgage Loan Maturity Date (for example, using the projected NCF in year 11 for a 10-year Loan term); and
  - a Refinance Interest Rate, which is the maximum interest rate that could be supported based on the UPB required DSCR and projected NCF for the first year following the Mortgage Loan Maturity Date.

203.01 Base Assumptions

Requirements

You must derive proforma NCF for the term of the Mortgage Loan as follows:

- Year 1: Underwritten NCF.
- Income Growth Rate: 2%.
- Economic Vacancy: hold underwritten economic vacancy level for the Mortgage Loan term.
- Expense Growth Rate:
  - 3 %; and
  - for real estate taxes,
    - 3 % (or 2% for California acquisitions), or
    - increase Property taxes if an abatement expires or taxes are

expected to rise during the loan term followed by 3% trending, or

- for refinance transactions in California only, no trending is required until the year in which the actual tax bill would surpass the underwritten taxes, then trend Property taxes at 2%.

You must estimate the Mortgage Loan UPB at the Maturity Date as follows:

- Amortization: 30 years or the amortization for the applicable product or features.
- DSCR: The minimum Tier 2 DSCR for the applicable product or features, per Form 4660.
- LTV: The maximum Tier 2 LTV for the applicable product or features, per Form 4660.

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 that the base assumptions do not appropriately estimate the Property’s NCF over the Mortgage Loan term, you may undertake 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. You should 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 years 1 and 2.
- Rent projections greater than 2% should not be used beyond year 4.
- When improvements in market economic occupancy or sustained market rental rate increases are widely anticipated, growth trends above 2% may be supported.
- Projections of income growth resulting from Property renovations or improved operations should be limited to the first 3 years.
- When a Property is subject to a scheduled reassessment or a tax abatement phase-in period, tax expense should be adjusted appropriately.
- 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 that are experiencing 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).

Guidance

When underwriting a cash out transaction you should consider:

- the amount of hard equity remaining in the Property;

- the length of time the Borrower has owned the Property;
- the effective age and current physical condition of the Property;
- 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; and
- whether an increase in the Property's value resulted from an increase in NCF or a decrease in the capitalization rate.

Examples of factors that support cash out transactions include:

- retention by the Borrower of 10% or more hard equity in the Property;
- ownership of the Property for a period of time commensurate with the extent of cash out proceeds;
- maintenance of the Property in good condition, or improvement of its condition, during the ownership period;
- improvement in the Property's NCF over the ownership period; and
- an increase in the Property's value over the ownership period due to an increase in NCF.

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 Legal Non-Conforming Uses

Requirements

For each Property, you must:

- Identify the current zoning or land use designation.
- Determine whether the use conforms to those designations.

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

- Determine whether Improvements can be reconstructed to a level that would support a Tier 2 DSCR in case of full or partial casualty.
- Analyze the impact on the Mortgage Loan if the Borrower is not allowed to rebuild.

Guidance

To assess the Borrower's ability to rebuild Improvements on a non-conforming Property to a level that would support a Tier 2 DSCR, you should consider:

- the continued marketability and economic viability of the Property;
- the percentage of damage that could occur before the Property would be forced to comply with current zoning requirements, and how to apply that percentage to the Property's market value, assessed value, replacement cost, and unit count;
- for Properties with multiple buildings, whether a Tier 2 DSCR would be supported by a single building or the complex as a whole; and
- the amount and type of insurance coverage maintained by the Borrower.

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
- the impact on 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 108: 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.

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

If the Property...	You must...
Previously secured taxable or tax-exempt bonds	• 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.
Currently secures taxable or tax-exempt bonds that are being retired with proceeds of the Mortgage Loan	• review the bond documents, and • analyze the impact of any surviving features of the financing.

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 Fannie Mae;
- gives an overview of the redemption process for retiring the bonds; and
- is uploaded into DUS Gateway prior to Commitment.

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 that
  - the legal description of the insured property is identical to the legal description of the property shown on and required survey, and
  - if the Property consists of multiple parcels, they are contiguous;
- 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:
    - 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 2006 or the 1992 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

Guidance

The effective date of the title policy should not be earlier than when the:

- Security Instrument is recorded, if a 1992 ALTA policy form is issued; or
- Mortgage Loan was funded, if a 2006 ALTA policy form is issued.

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

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.

304.09 Endorsements

304.09A Generally

Guidance

You should get an appropriate ALTA form of endorsement that is incorporated into the “base” title policy. In jurisdictions where an ALTA form is not available, you may include in Schedule B an equivalent form of endorsement or affirmative coverage.

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 I. 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 2016 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(a), 13, 16, and 19;
- may omit the following from Table A:
  - item 1 for a Property with a lot and block legal description; and/or
  - item 10(a), 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.

To…	Do the following…
Establish whether the Borrower or a third party owns the Personal Property	Confirm that the Borrower has provided a representation of ownership in the Underwriting Certificate (Borrower) (Form 6460).
Verify that no other party has a Lien on the Personal Property	Conduct searches for UCC financing statements, tax Liens, and judgments on all relevant parties to the transaction.
Obtain a perfected first security interest in the Personal Property	• Obtain a security agreement from each third party that owns Personal Property. • Verify that the Security Instrument and each third party security agreement contains a granting clause creating a security interest in all Personal Property. • 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.
Assign the security interest from you to Fannie Mae	File an appropriate assignment (e.g., UCC-1Ad; UCC-3) in the same office(s) where the UCC-1 is filed or recorded.

Chapter 4 Inspections and Reserves

Section 401 Site Inspection

Requirements

Before the Commitment Date, you must ensure:

- a physical inspection of the Property is performed; and
- the MBA Standard Inspection Form is completed.

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.

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 Agreement 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 Agreement as outlined below.

Type of item…	Complete as follows…
For items identified as life safety repairs in the PCA	Comply with Part II, Chapter 4: Inspections and Reserves, Section 403.03: Life Safety Issues.
For items identified as critical repairs in the PCA	Within 6 months after the Mortgage Loan Origination Date, or sooner if recommended by the PCA Consultant.
For items identified as deferred maintenance or items of note in the PCA	Within 12 months after the Mortgage Loan Origination Date, or sooner if recommended by the PCA Consultant.
For items identified as short term replacement of capital items in the PCA	By the specific date recommended by the PCA Consultant, but may be longer than 12 months after the Mortgage Loan Origination Date.
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	Comply with Part II, Chapter 2: Valuation and Income, Section 201.02C: Appraised Value.

Type of item…	Complete as follows…
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	Comply with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans.
For all other Rehabilitation Work that was not identified as a Completion/Repair by the PCA	Comply with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans.

403.02 Completion/Repairs Funding

Requirements

When full or partial funding of the Completion/Repair Escrow is required, you must use a Completion/Repair Agreement.

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 in the Completion/Repair Agreement.

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 in the Completion/Repair Agreement.

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.

404.03 Alternative Replacement Reserve Funding

Guidance

Instead of full funding, you may choose this alternative method for funding the Replacement Reserve.

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.

Section 405 Escrow Requirements for Taxes and Insurance

405.01 Escrows

Requirements

You must require any Tier 2 Mortgage Loan Borrower to make monthly escrow deposits for real estate taxes and insurance premiums.

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

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

Premiums 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.

Guidance

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.

501.01F 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.

Operating Procedures

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

501.01G Insurance Compliance and Data

Operating Procedures

You must complete an annual insurance compliance checklist, including the following information for all insurance coverages, and place it in your 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.

If the insurable value is...	The maximum deductible amount per occurrence is...
Less than $5 million	$15,000

If the insurable value is…	The maximum deductible amount per occurrence is…
Equal to or greater than $5 million, but less than $50 million	$25,000
Equal to or greater than $50 million, but less than $100 million	$100,000
Equal to or greater than $100 million	$250,000

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 Servicing File must include your analysis and related documentation to support the economic feasibility and the amount of the reduction.

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.

501.04 Liability Insurance

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:

If the number of stories in the building is…	The minimum excess/umbrella insurance coverage is…
1 4	$2 million
5 10	$5 million
11 20	$10 million
Over 20	$25 million

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

If the insurable value is…	The maximum deductible amount per occurrence is…
Less than $5 million	$40,000
Equal to or greater than $5 million, but less than $50 million	$50,000
Equal to or greater than $50 million, but less than $100 million	$125,000
Equal to or greater than $100 million	$275,000

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:

If the number of licensed beds is…	The minimum excess/umbrella insurance coverage is…
1 100	$2 million
101 500	$5 million
501 1,000	$10 million
Over 1,000	$25 million

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:

- meet the ASTM seismic standards (ASTM E2026 – Standard Guide for Seismic Risk Assessment of Buildings and ASTM E2557 – Standard Practice for Probable Maximum Loss (PML) Evaluations for Earthquake Due Diligence Assessments);
- 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; and
- comply with Form 4099.C.

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.

Glossary

A

Affiliate	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: • any Person that owns any direct ownership interest in Borrower or Key Principal; • any Person that indirectly owns, with the power to vote, 20% or more of the ownership interests in Borrower or Key Principal; • any Person Controlled by, under common Control with, or which Controls, Borrower or Key Principal; • 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 • any other individual that is related (to the third degree of consanguinity) by blood or marriage to Borrower or Key Principal. **Synonyms** • Affiliates
ALTA	American Land Title Association
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.

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
Assisted Living	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. **Synonyms** • AL
ASTM	American Society for Testing Materials

B

Bifurcated Mortgage Loan	Single Senior Mortgage Loan that is evidenced by 2 Notes with the same payment and collateral priority. **Synonyms** • Bifurcated Mortgage Loans
Borrower	Person who is the obligor per the Note. **Synonyms** • Borrowers • Borrower's

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

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.
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 and windstorm. **Synonyms** • Catastrophic Events
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

Commitment Date	Date a Commitment is confirmed by Fannie Mae per Part IV, Chapter 2: Rate Lock and Committing, Section 204: Commitments.
Completion/Repair Agreement	Document evidencing the Borrower's agreement to undertake Completion/Repairs and other identified capital improvements, the terms for funding the repairs, maintenance, or capital items, and the disbursement of funds from the Completion/Repair Escrow (e.g., Form 4505, or the applicable parts of the Multifamily Loan Agreement (Form 6001 series), including the Required Repair Schedule to the Multifamily Loan Agreement). **Synonyms** • Completion/Repair Agreements
Completion/Repair Escrow	Custodial Account established by the Lender and initially funded by an escrow deposit from the Borrower on the Mortgage Loan Origination Date to complete Completion/Repairs or other capital improvements at the Property.
Completion/Repairs	Immediate Repairs identified by the Property Condition Assessment and required by the Lender to be included in the Completion/Repair Agreement (or a Certificate of Borrower, if applicable). **Synonyms** • Completion/Repair
Cooperative Organization	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.

D

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

E

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
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

F

FEMA	Federal Emergency Management Agency
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.
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

G

Gross Note Rate	Interest rate stated in the Loan Documents.

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 guaranty related to the Mortgage Loan. **Synonyms** • Guarantors
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

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).
HPB	High Performance Building

I

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).

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
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

K

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

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 approved by Fannie Mae to sell or service Mortgage Loans. **Synonyms** • Lenders • Lender's
Lien	Lien, mortgage, bond interest, pledge, security interest, charge, or encumbrance of any kind. **Synonyms** • Liens
Loan Documents	All documents evidencing, securing, or guaranteeing the debt obligation executed for a Mortgage Loan and approved by Fannie Mae. **Synonyms** • Loan Document • Mortgage Loan Document • Mortgage Loan Documents

M

MAMP	Multifamily Asset Management Portal used to submit Property inspections, operating statements, and requested modifications; asset management reports; and data corrections related to loan or property level attributes. **Synonyms** • Multifamily Asset Management Portal

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 an Affiliate of the Borrower, any Key Principal, or any Principal. **Synonyms** • Material Commercial Leases
Maturity Date	Date all amounts due and owing under the Mortgage Loan become fully due and payable per the Loan Documents. **Synonyms** • Maturity Dates
MBA	Mortgage Bankers Association
MBS	Mortgage-Backed Security
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 Origination Date	Date you fund a Mortgage Loan to the Borrower. **Synonyms** • Mortgage Loan's Origination Date • Origination Date
Multifamily Loan Agreement	Agreement evidencing the terms of a Mortgage Loan using the Form 6001 series Loan Documents or another form approved by Fannie Mae.

N

National Flood Insurance Program	Program of flood insurance coverage and floodplain management administered under the National Flood Insurance Act. **Synonyms** • NFIP

P

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.

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.
Personal Property	Furniture, fixtures, equipment, and other tangible personal property located on or used in connection with the Property.
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

Prepayment Premium Period End Date	Last date when a Borrower owes a Prepayment Premium for a voluntary Mortgage Loan prepayment.
Principal	Person who owns or controls specified interests in the Borrower per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 303: Key Principals, Principals, and Guarantors. **Synonyms** • Principals
Property	Multifamily residential 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
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.
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.
Replacement Reserve	Custodial Account established by the Lender and funded by deposits from the Borrower over the term of the Mortgage Loan to fund the replacement of capital items at the Property. **Synonyms** • Replacement Reserves
Replacement Reserve Schedule	The Required Replacement Schedule to the Multifamily Loan Agreement (Form 6001 series) a Replacement Reserve and Security Agreement (Form 4506), or another agreement approved by Fannie Mae, that evidences: • the Borrower's agreement to undertake identified replacement of capital items and required maintenance; • the terms for funding such replacement of capital items and maintenance; and • the disbursement of funds from the Replacement Reserve. **Synonyms** • Replacement Reserve Schedules

Risk Retention Group

State-chartered insurance company created by the 1986 federal Liability Risk Retention Act, insuring commercial businesses and government entities against liability risks.

Synonyms
• RRG

S

Security

MBS, PFP MBS, or REMIC.

Security Instrument

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

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

Synonyms
• Servicers

Servicing File

File for each Mortgage Loan serviced by the Lender.

Synonyms
• Servicing Files

SNDA

Subordination, Non-Disturbance and Attornment Agreement

Sponsor	Principal equity owner and/or primary decision maker of the Borrower (often the Key Principal or the Person Controlling the Key Principal). **Synonyms** • Sponsors • Sponsor's
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.
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

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 Net Cash Flow	Net Cash Flow as adjusted by the Lender per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products and features in Part III. **Synonyms** • Underwritten NCF

UPB	Unpaid Principal Balance
USPAP	Uniform Standards of Professional Appraisal Practice