



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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## Part II

## Property

### Chapter 1

### Attributes and Characteristics

#### Section 101

#### Eligible Properties

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##### Requirements

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

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



- either complies with all applicable statutes, rules, regulations, and housing and building codes, or is being appropriately remediated;
- does not contain any Modular Housing; and
- has access to police and emergency services.

### Guidance

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

- were originally constructed at the same time;
- were historically bought, operated, and sold as 1 Project since originally constructed;
- are generally consistent in physical appearance, with distinct boundaries such as
  - signage,
  - gates/fencing,
  - shared parking, or
  - dedicated streets;
- are located on a single tax parcel or adjacent tax parcels;
- are configured without any non-Borrower owned parcels or buildings separating/splitting or within the multifamily development; and
- are not part of a predominately homeowner development.

## Section 102 Multiple Properties

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### 102.01 Single Borrower Ownership

#### Requirements

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

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



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

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

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

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

- comply with the minimum occupancy requirements in
  - [Part II, Chapter 1: Attributes and Characteristics, Section 105: Minimum Occupancy](#), or
  - [Part III, Chapter 9: Small Mortgage Loans, Section 903: Occupancy](#);
- be located in the same MSA; and





- have an acceptable Property condition based on
  - your site inspection, and
  - any required PCA.

 Guidance

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

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

**102.02** Joint and Several Borrower Ownership

 Requirements

If...	Then...
A Mortgage Loan <ul style="list-style-type: none"> <li>• is made to joint and several Borrowers,</li> <li>• is secured by multiple Properties,</li> <li>and</li> <li>• has a Property owned by a different Borrower.</li> </ul>	The Mortgage Loan and each Borrower must comply with <ul style="list-style-type: none"> <li>• Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302.01: Single-Asset Entity,</li> <li>• Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302.03: Joint and Several Borrowers with Multiple Properties ,</li> <li>and</li> <li>• Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership.</li> </ul>

**Section 103** Property Ownership; Leasehold

 Requirements

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

**Section 104** Ground Leased Properties



## 104.01 Generally

### Requirements

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

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

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

## 104.02 Ground Lease Rents

### Requirements

You must:

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

## 104.03 Ground Lease Estoppel Certificate

### Requirements

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

## 104.04 Ground Lease Review

### Requirements

You must:

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

## Section 105 Minimum Occupancy



## 105.01 Residential Occupancy

### Requirements

You must ensure the Property meets these minimum occupancy levels:

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

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

## 105.02 Qualified Occupants

### Requirements

When calculating physical occupancy, you must only include tenants who

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

### Guidance

You may include any tenant who:

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

You may include non-revenue producing units such as

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

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

## Section 106 Certificates of Occupancy



## ☑ Requirements

Certificates of Occupancy	
For any...	You must...
Property with construction or rehabilitation work completed within the last 12 months	<ul style="list-style-type: none"><li>• Ensure all units have a certificate of occupancy.</li><li>• Obtain copies of all certificates of occupancy from the Borrower.</li><li>• Retain them in your Servicing File.</li></ul>
Other Property	<ul style="list-style-type: none"><li>• Determine if each unit had a certificate of occupancy at some point.</li><li>• Attempt to obtain copies of them.</li><li>• Retain them in your Servicing File.</li></ul>

## ➔ Guidance

No Certificate of Occupancy	
If you cannot obtain...	You should...
Copies of certificates of occupancy for a Property (for example, because of the Property's age, or the records of the jurisdiction where the Property is located)	<ul style="list-style-type: none"><li>• Exclude the income generated by any units without a certificate of occupancy, but include all expenses (including replacement reserves) for the maintenance of these units.</li><li>• Look for other evidence that certificates of occupancy had been issued.</li></ul>
Copies or other sufficient evidence of a certificate of occupancy	Analyze the risk to the Property if one had never been issued, by considering if: <ul style="list-style-type: none"><li>• your physical inspection reveals any life safety issues;</li><li>• all units are accessible through normal access routes (and not, for example, through a former janitorial closet);</li><li>• the insurance excludes coverage of a casualty originating from a unit without a certificate of occupancy; and</li><li>• the Property is located in a market that exhibits low vacancies and barriers to entry.</li></ul>



## Section 107

## Phased Properties

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### Requirements

If the Property is a Phased Property, you must evaluate

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

### Guidance

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

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

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

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



roadways).

### Requirements

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

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

- all Fannie Mae Mortgage Loans on each phase must be cross-defaulted and cross-collateralized;
- when any new Phased Property Mortgage Loan is underwritten, the actual amortizing DSCR (per [Form 4254.DEF](#)) and current LTV for all existing Mortgage Loans on each phase must comply with Form 4660 for the same loan term, product, and Pricing and Underwriting Tier, where each property value is determined by
  - dividing the current NCF by the capitalization rate (i.e., a Direct Cap with Sales Comparables analysis),
  - broker's opinion of value, or
  - most recent Appraisal; and
- the new Phased Property Mortgage Loan must have a Prepayment Premium Period End Date on or before the Prepayment Premium Period End Date of the Mortgage Loans on the other phases.

### Guidance

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

## Section 108 Shared Use Properties

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### 108.01 Eligibility

#### Requirements

This section does not apply to

- Condominium Properties, and
- Cooperative Properties.



<b>Shared Use Property Delivery Eligibility for Essential Elements Not Located on the Property</b>	
Topic	A Shared Use Property Mortgage Loan is eligible for Delivery if...
Documents	you determine the Shared Use Documents do not explicitly prohibit the Essential Elements from being rebuilt or repaired after any casualty or condemnation.
Property	the Property benefits from Essential Elements per Shared Use Documents that: <ul style="list-style-type: none"><li>• are perpetual;</li><li>• inure to the benefit of future Property owners;</li><li>• are recorded in the land records; and</li><li>• if applicable, are insured as beneficial easements under the lenders title policy.</li></ul>
Split Ownership of Units and Essential Elements	when the Borrower owns all units subject to the Shared Use Documents, and an Affiliate of the Borrower or Key Principal directly or indirectly owns the Essential Elements that benefit only the Property, such Affiliate joins the: <ul style="list-style-type: none"><li>• Loan Documents as a joint and several Borrower; or</li><li>• Security Instrument using the Modification to Security Instrument ( Joinder and Consent (Affiliate Owned Common Elements )) (Form 6324).</li></ul>

<b>Shared Use Property Delivery Eligibility for All Essential Elements</b>	
Topic	A Shared Use Property Mortgage Loan is eligible for Delivery if...



Shared Use Property Delivery Eligibility for All Essential Elements	
Financial	<p>all:</p> <ul style="list-style-type: none"><li>• Property and Essential Elements expenses and charges payable per the Shared Use Documents are current;</li><li>• assessments and payments payable per the Shared Use Documents are current; and</li><li>• to the extent permitted by law, future assessments owed by the Borrower and associated liens, if any, are subordinate to the Mortgage Loan.</li></ul>
Borrower Status	<p>the Borrower:</p> <ul style="list-style-type: none"><li>• has no outstanding community violations; and</li><li>• is not involved in a community dispute that may<ul style="list-style-type: none"><li>- result in litigation, or</li><li>- materially adversely impact the Property.</li></ul></li></ul>

## 108.02 Documents

### 108.02A Loan Documents

#### Requirements

You must:

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

### 108.02B Shared Use Documents

#### Requirements

You must:





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

➔ Guidance

Shared Use Document Evaluation	
Topic	You should review the Shared Use Documents to evaluate...
Ownership and Control	<ul style="list-style-type: none"><li>• if the Borrower owns all Improvements and the underlying land;</li><li>• if Essential Elements not located on the Property exist, and if ownership is:<ul style="list-style-type: none"><li>- directly or indirectly by an Affiliate of the Borrower or Key Principal;</li><li>- by a separate association or governing body;</li><li>- by another community owner or an adjacent property owner; or</li><li>- shared by the community owners; and</li></ul></li><li>• how association and Essential Elements decisions are made by any<ul style="list-style-type: none"><li>- developer,</li><li>- declarant,</li><li>- association,</li><li>- community owner, or</li><li>- other governing body.</li></ul></li></ul>



Shared Use Document Evaluation	
Responsibilities and Enforcement	<p>how an association or governing body:</p> <ul style="list-style-type: none"><li>• collects fees and assessments;</li><li>• maintains Essential Elements;</li><li>• obtains insurance;</li><li>• mediates disputes; and</li><li>• enforces covenants, including<ul style="list-style-type: none"><li>- levying fines or interest, or</li><li>- pursuing liens or foreclosure.</li></ul></li></ul>
Fees	<p>the assessment fee structure, including</p> <ul style="list-style-type: none"><li>• escalation provisions,</li><li>• special assessments, and</li><li>• if assessments should be escrowed.</li></ul>
Budget	<p>the associations current</p> <ul style="list-style-type: none"><li>• annual budget,</li><li>• income/expense statements, and</li><li>• reserve accounts.</li></ul>
Mandates	<p>how the association dictates:</p> <ul style="list-style-type: none"><li>• operations;</li><li>• physical appearance;</li><li>• insurance claim proceeds;</li><li>• other restrictions, including limitations or modifications for using the Essential Elements; and</li><li>• if the cost and maintenance of the Essential Elements located on the Property are not overly burdensome.</li></ul>
Insurance	<p>the associations coverage for:</p> <ul style="list-style-type: none"><li>• property, including if the Essential Elements not located on the Property must be rebuilt or repaired after any casualty or condemnation;</li><li>• liability; and</li><li>• directors and officers.</li></ul>



## Section 109

### Commercial Leases

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#### Requirements

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

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

#### Guidance

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

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

#### **109.01** Material Commercial Leases

##### **109.01A** Lease Review

#### Requirements

You must analyze all aspects of each Material Commercial Lease and its

- tenants,
- grantees, or
- other beneficiaries.



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

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

### Guidance

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

- each tenant has the ability to fulfill its financial and other performance obligations under the Material Commercial Lease;
- the Material Commercial Lease insurance provisions are consistent with the insurance requirements in the applicable Loan Documents or otherwise prescribed by Fannie Mae;
- each tenant is required to obtain the Lender's consent before the Material Commercial Lease is
  - assigned,
  - subleased,
  - subcontracted, or
  - otherwise transferred; and
- the tenant
  - has early termination clauses, and
  - understands the conditions under which they can terminate, including
    - a material casualty or condemnation, or
    - if the landlord cannot substantially restore the premises in a reasonable period of time following a casualty or condemnation.

## **109.01B** Lease Approval

### Requirements



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

#### 109.01C Lease Modifications

##### Requirements

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

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

If any of these conditions are present you must:

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

#### 109.01D Tenant Estoppel Certificate

##### Requirements

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

#### 109.01E Subordination, Non-Disturbance and Attornment



### Requirements

You must use [Form 6415](#) if:

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

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

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

## **109.02** Non-Material Commercial Leases

### **109.02A** Tenant Estoppel Certificate; Lease Modification

#### Requirements

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

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

- require the Borrower to modify the lease appropriately; or
- address any inconsistencies or risks in a [Form 6413](#).

### **109.02B** Non-Material Commercial Lease Types

#### Requirements



Non-Material Commercial Lease Type	
Telecommunications and Cell Tower Leases	<p>You must review any telecommunications and cell tower lease to ensure it does not:</p> <ul style="list-style-type: none"> <li>• comprise more than 5% of the Property's Effective Gross Income;</li> <li>• negatively impact the Property's               <ul style="list-style-type: none"> <li>- value,</li> <li>- visibility,</li> <li>- livability, or</li> <li>- marketability;</li> </ul> </li> <li>• impose an undue financial or operating burden on the Property or the Borrower;</li> <li>• obligate the Borrower to rebuild any Improvements at the Property post-casualty or condemnation;</li> <li>• have a lease term (including extension options) in excess of 25 years;</li> <li>• contain a purchase option; or</li> <li>• 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.).</li> </ul>
Communications Service Agreement	<p>You do not need to subordinate the service agreement to the Lien of the Security Instrument if:</p> <ul style="list-style-type: none"> <li>• the Borrower certifies to you that neither the Borrower, nor any Key Principal or Principal, is an Affiliate of the communications service provider; and</li> <li>• 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.</li> </ul> <p>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.</p>



Non-Material Commercial Lease Type	
Mineral Rights; Oil and Natural Gas Leases	<p>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:</p> <ul style="list-style-type: none"><li>• comprise more than 5% of the Property's Effective Gross Income;</li><li>• grant surface entry for any purpose (e.g., pipes, access across, or storage on the Property);</li><li>• grant subsurface rights within<ul style="list-style-type: none"><li>- 250 feet below the surface of the Property,</li></ul>or<ul style="list-style-type: none"><li>- 600 feet from any Property boundary line;</li></ul></li><li>• have a material adverse effect on<ul style="list-style-type: none"><li>- public health and safety,</li><li>- air quality or noise levels, or</li><li>- the Property's marketability or occupancy;</li></ul></li><li>• permit oil or gas well activities with potential negative effects on the Property's<ul style="list-style-type: none"><li>- access,</li><li>- visibility, or</li><li>- storm water drainage;</li></ul></li><li>• have a negative effect on the Property's<ul style="list-style-type: none"><li>- zoning, or</li><li>- allowable density;</li></ul></li><li>• facilitate drilling, storage, or processing of oil or gas on the Property or any adjacent property;</li></ul> or <ul style="list-style-type: none"><li>• 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.</li></ul> <p>The Borrower must execute <a href="#">Form 6262</a> 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.</p>





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: <ul style="list-style-type: none"><li>• is not with an Affiliate of the Borrower or any Key Principal or Principal;</li><li>• has market terms;</li><li>• contains an acceptable termination for cause provision; and</li><li>• meets recognized industry standards.</li></ul>
Equipment or Related Maintenance Services Lease	You must ensure that the lease: <ul style="list-style-type: none"><li>• is subordinate to the Security Instrument;</li><li>• contains an acceptable termination for cause provision; and</li><li>• meets recognized industry standards.</li></ul>

➔ 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 the unit is being leased pursuant to a residential Lease.

**109.03** Short Term Rentals

Requirements

You must ensure that:

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

You must include the following information in your underwriting analysis:



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

### Guidance

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

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

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

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

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### **110.01**      Acceptable Renewable Energy Generation Systems

#### Requirements

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

- located on the Property;
- comprised of a Solar PV System;



- Borrower-owned; and
- installed, or installation will begin, on or before the Mortgage Loan Origination Date.

## 110.02 Solar Photovoltaic Systems

### Requirements

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

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

### Guidance

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

- the interconnection agreement with local distribution company or utility;
- any net metering agreements;



- engineering, procurement, and construction contracts or agreements;
- any Operating and Maintenance Agreements;
- notice of Permission to Operate (or similar document) provided by local distribution company or utility;
- any supplemental financing or financing incentives (e.g., grants, tax credits, etc.) used by the Borrower to finance the Solar PV System to determine if any competing liens or other restrictions might result;
- any leases or contractual arrangements, such as agreements for
  - renewable energy certificates,
  - solar renewable energy certificates, or
  - purchasing power; and
- confirming that Borrower will not be deemed a public utility.

### 110.03 Solar PV System Module

#### Requirements

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

### 110.04 Underwritten NCF

#### Requirements

When calculating Underwritten NCF:

- do not include any income derived from the Solar PV System, except for tenant utility reimbursement;
- any utility reimbursement income must
  - not exceed the trailing 12-month period, and
  - consider any decrease from the lower utility expense;
- utility expense must be supported by the trailing 12-month operating history; and
- include all additional Solar PV System operating expenses such as:
  - operating and maintenance contract fees;
  - fixed utility fees;



- incremental real estate taxes;
- insurance coverage; and
- Replacement Reserves for equipment replacement and/or system removal and reinstallation upon roof replacement.

## Section 111 Oil/Gas Wells and Mineral Exploration

### 111.01 Active Oil and Gas Wells

#### Requirements

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

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

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

#### Guidance

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

- wells associated with production, exploration, or extraction;
- active storage or processing; or



- associated pits, ponds, or lagoons.

## 111.02 Inactive Oil and Gas Wells

### Requirements

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

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

## Section 112 Property Management and Agreement

### 112.01 Property Management

### Requirements

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

### Guidance

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

- has adequate experience to ensure effective Property



- administration,
  - leasing,
  - marketing, and
  - maintenance; and
- is staffed appropriately for the
    - Property type and size, and
    - services provided.

## 112.02 Property Management Agreement

### Requirements

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

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

### Guidance

You should ensure the Property management agreement clearly states the

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



## Chapter 2 Valuation and Income

### Section 201 Market Analysis

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#### Requirements

When structuring the Mortgage Loan, you must:

- evaluate the Property's market; and
- using objective factors, consider its
  - strengths, and
  - weaknesses.

### Section 202 Appraisal and Valuation

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#### 202.01 Appraisals

##### 202.01A Appraiser Selection

#### Requirements

You must:

- document the selection and approval of an Appraiser, who is:
  - a Certified General Appraiser (or licensed or certified per state law, if that state does not use the Certified General Appraiser designation);
  - listed in good standing on the state roster per Title XI of FIRREA; and
  - actively prepares multifamily appraisals in the Property's market;
- require the Appraisal to:
  - be in a narrative format, using only objective factors;
  - be signed by the Appraiser;
  - be certified by the Appraiser to conform with current USPAP requirements; and
  - comply with:
    - Instructions for Appraisers ([Form 4827](#)); and
    - any governmental regulations in effect when the Mortgage Loan was originated, including
      - FIRREA,





- all fair lending laws, and
- all fair housing laws;
  
- provide the Appraiser all applicable documents needed to accurately assess Property's value, including:
  - the most recent PCA Report, or any other inspection reports (e.g., a structural engineering report);
  - a rent roll dated within 60 days of the Appraiser's inspection date;
  - Property operating statements detailing
    - income and expenses for the previous year (if available, for the previous 2 years), and
    - year-to-date income and expenses;
  - your sample of residential leases reviewed;
  - copies of any:
    - executed commercial leases, including all amendments and attachments;
    - ground leases;
    - easements or regulatory agreements; and
    - any purchase/sales contracts executed within 3 years before the Appraisal date;
  - any Environmental Site Assessments;
  - architectural plans, if the Property is not yet completed;
  - site plans/surveys, if available;
  - for a Moderate Rehabilitation Property, details of the
    - capital expenditures incurred, and
    - total construction costs; and
  - any information that may affect the Appraiser's estimate of the Property's value; and
  
- not accept any Appraisal completed by an Appraiser selected, retained, or compensated by:
  - the Borrower;
  - the Sponsor;



- any Key Principal;
- any Guarantor;
- for an acquisition, the seller or any related party; or
- any third party, including Mortgage Loan
  - Brokers, or
  - Correspondents.

### ➔ Guidance

If final reports are unavailable, you may send draft versions of the

- PCA Report, and
- Environmental Site Assessments.

If the final reports differ materially from the drafts sent to the Appraiser, you must:

- forward the final reports to the Appraiser; and
- inquire whether the Appraisal should be updated based on the final reports.

## 202.01B Permissible Appraiser Communications

### Requirements

When communicating with an Appraiser, you must comply with the Appraiser Communications table.

Appraiser Communications	
You may...	You mustnot...



Appraiser Communications	
<ul style="list-style-type: none"> <li>• obtain supporting information for a specific market, including:               <ul style="list-style-type: none"> <li>- sales or rental comparable properties;</li> <li>- rent or expense data;</li> <li>- capitalization rate data;</li> <li>- recent sales; or</li> <li>- price per unit or square footage ranges;</li> </ul> </li> <li>• provide all documents needed to accurately assess the Property's value per this Chapter;</li> <li>• share or request additional supporting comparable property information; and</li> <li>• request additional documents supporting the Appraisers conclusions.</li> </ul>	<p>provide any Mortgage Loan data, such as</p> <ul style="list-style-type: none"> <li>• LTV,</li> <li>• DSCR,</li> <li>• amount, or</li> <li>• Underwritten NCF.</li> </ul>

**202.01C** Valuation Date

Requirements

Valuation Date	
If the Appraisal Date is more than...	You must...
6 months before the Commitment Date	Instruct the Appraiser to update the Appraisal per Instructions for Appraisers (Form 4827).
12 months before the Commitment Date	Order a new Appraisal.

Guidance

You may be required to obtain a new or updated Appraisal if Fannie Mae determines the market deteriorated between the

- Appraisal Date, and
- Commitment Date.

**202.01D** Appraisals Ordered by Another Lender



### Requirements

If you Deliver a Mortgage Loan with an Appraisal prepared by an Appraiser selected by another lender, you must:

- make all representations and warranties to Fannie Mae regarding the Appraisal; and
- confirm it complies with this Guide.

## **202.01E** Lender Appraisal Review

### Requirements

Your employees must:

- review and approve each Appraisal for adequacy and compliance; and
- ensure the Appraisal includes:
  - an accurate description of the Property and the market, including:
    - the Property's complete legal description;
    - any information you provided the Appraiser;
    - color photographs of the Property's
      - exterior,
      - interior common areas,
      - typical unit interiors,
      - surrounding area,
      - rental comparables,
      - sales comparables, and
      - commercial rental comparables;
    - maps showing the Property's location relative to the location of the
      - land comparables,
      - current rental comparables,
      - future rental comparables, and
      - sales comparables;
    - qualifications of the
      - Appraiser, and



- any supervising Appraiser; and
- a copy of your
  - complete signed engagement letter with the Appraiser, and
  - communications with the Appraiser regarding the Appraisal scope;
- an opinion of the Property's value per [Part II, Chapter 2: Valuation and Income, Section 202.02A: Appraised Value](#), and supported by
  - market data,
  - logical analysis, and
  - sound professional judgment;
- an opinion of the Property's insurable value; and
- an industry standard form of Appraisal appropriate for the Mortgage Loan's
  - size, and
  - structure.

You must:

- return any report to the Appraiser that:
  - is incomplete; or
  - lacks credibility; and
- ensure your Appraisal review:
  - is documented in the Transaction Approval Memo;
  - is accompanied by all other Appraisals you ordered on the Property during the past 3 years; and
  - includes all information per the following Appraisal Analysis table.

Appraisal Analysis	
For...	You must...



Appraisal Analysis	
Market Conditions	Confirm the Appraisal accounts for current market conditions, including <ul style="list-style-type: none"><li>• supply and demand dynamics,</li><li>• interest rates, and</li><li>• economic factors.</li></ul>
Data Accuracy	Verify the Appraisals data accuracy, including <ul style="list-style-type: none"><li>• Property details,</li><li>• recent sales prices, and</li><li>• relevant market data.</li></ul>
Property Inspections	Determine if the Appraiser conducted a thorough inspection of the Property, including random sampling of occupied and vacant units per Instructions for Appraisers ( <a href="#">Form 4827</a> ).



Appraisal Analysis	
Sales/Rental Comparable Analysis	<ul style="list-style-type: none"> <li>• Determine if the Appraiser used appropriate comparable properties similar in:               <ul style="list-style-type: none"> <li>- size and/or unit count (on both a per-unit and a per-square foot basis);</li> <li>- type (e.g., high-rise, mid-rise, garden, etc.);</li> <li>- age;</li> <li>- condition;</li> <li>- in-unit finishes;</li> <li>- amenities;</li> <li>- location, including                   <ul style="list-style-type: none"> <li>▪ market,</li> <li>▪ submarket, and</li> <li>▪ distance to subject; and</li> </ul> </li> <li>- sales of comparable properties, with at least 1                   <ul style="list-style-type: none"> <li>▪ being a listing/pending sale, or</li> <li>▪ sold within 24 months of the Appraisal Date.</li> </ul> </li> </ul> </li>   <li>• If appropriate comparable properties were not used, either:               <ul style="list-style-type: none"> <li>- coordinate with the Appraiser to obtain additional comparable properties; or</li> <li>- provide the Appraiser additional comparable properties from Appraisals                   <ul style="list-style-type: none"> <li>▪ for any prior transactions you originated within the last 12 months before the Appraisal Date, or</li> <li>▪ from any external data sources verifiable by the Appraiser.</li> </ul> </li> </ul> </li> </ul>
Market Rents and Expense Analysis	<p>If the Appraisers proforma income or expenses substantially differ from the Property's income and expenses used to calculate the Underwritten NCF, provide additional supporting comparable property data or rationale supporting your conclusions.</p>



Appraisal Analysis	
Capitalization Rate Analysis	Provide your assessment that the capitalization rate: <ul style="list-style-type: none"><li>• supports your final Underwriting Value; and</li><li>• is within comparable capitalization rates compared to<ul style="list-style-type: none"><li>- your portfolio data, or</li><li>- any other external data sources you use to review appraisals.</li></ul></li></ul>
Value Reconciliation	<ul style="list-style-type: none"><li>• Review how the Appraiser reconciled the values obtained from different approaches to determine the final opinion of value.</li><li>• Document your assessment.</li></ul>

For each Appraisal, you must ensure all:

- [Potential Red Flags for Mortgage Fraud and Other Suspicious Activity](#) were considered and the review documented in the Transaction Approval Memo; and
- unresolved red flags were reported per [Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance](#).

## 202.01F Subsequent Appraisals

### Requirements

For any Mortgage Loan, you must not order, obtain, use, or pay for a subsequent Appraisal unless:

- you document in your Transaction Approval Memo that the initial Appraisal:
  - was not credible; or
  - violated legal and/or professional standards related to
    - USPAP, or
    - nondiscrimination; and
- the subsequent Appraisal:
  - is required per your pre-established written pre- or post-funding Appraisal review policy;
  - adheres to a policy of selecting the most reliable Appraisal rather than





the Appraisal with the highest value; or

- is required by law.

## 202.01G Appraiser Discontinuance or Misconduct

### Requirements

You must promptly notify:

- Fannie Mae if you discontinue using any Appraiser who completed Appraisals within the past 12 months for Mortgage Loans you Delivered; and
- Fannie Mae and the applicable state Appraiser certifying and licensing agency, or other regulatory body, if you believe an Appraiser is:
  - violating USPAP, fair lending, fair housing, or other applicable laws;
  - not complying with Instructions for Appraisers ([Form 4827](#)) in violation of its engagement with you; or
  - engaging in unethical conduct.

## 202.02 Valuation

### 202.02A Appraised Value

#### Requirements

You must ensure:

- the Appraiser's engagement letter requires compliance with Instructions for Appraisers ([Form 4827](#));
- the Appraiser provides an opinion of the market value on an "as is" basis;
- the Appraiser's opinion of the market value covers:
  - each separate Project per [Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership](#); and
  - the aggregate market value of all Projects; and
- regardless of any allocation in the purchase/sales agreement, the Appraiser's opinion of the market value excludes any value from
  - goodwill,
  - business value (permitted for Seniors Housing Properties),



- intangibles,
- furniture,
- fixtures (unless customary in the market), or
- equipment.

You may also request the Appraiser provide an opinion of the Property's market value on an "as completed" basis, but you must only use an "as completed" value if all of the following apply:

- less than 12 months have passed between the
  - Borrower's acquisition of the Property, and
  - Commitment Date;
- for any capital improvements completed after the Mortgage Loan Origination Date to be considered in an "as completed" value, they must be:
  - Immediate Repairs listed in the PCA; or
  - improvements identified by the Borrower, if you agree the improvements will add Property value;
- all capital improvements are included in either the
  - Completion/Repair Schedule, or
  - Rehabilitation Reserve Agreement;
- sufficient funds to complete all capital improvements are deposited into either the Completion/Repair Escrow or the Rehabilitation Reserve Account:
  - for capital improvements identified as Immediate Repairs, the funds must cover any higher funding percentage you require; and
  - for capital improvements identified by the Borrower, the funds must cover the estimated cost (including a cost overrun allowance); and
- all capital improvements must be completed within:
  - 12 months after the Mortgage Loan Origination Date, if identified by the Borrower; or
  - any shorter time period per [Part II, Chapter 4: Inspections and Reserves, Section 404: Completion/Repairs](#), if listed as Immediate Repairs.



## 202.02B Property's Sale History

### Requirements

You must:

- analyze the Property's sale history for the last 3 years, including any transfer of a Controlling Interest in the owner;
- address the following in your Transaction Approval Memo:
  - if a sale occurred within the last 24 months, document the
    - circumstances of the sale, and
    - support for any increased Appraised Value by analyzing any
      - Net Cash Flow increases,
      - capitalization rate compression, and
      - value-add market drivers; and
  - if any stated sales price per the purchase/sales agreement differs from the transfer price per the public records or third-party reports, investigate and document the discrepancy;
- for any acquisition, confirm the seller was the Property owner in the real estate records when the purchase/sales agreement was signed;
- evaluate the purchase/sale contracts to
  - clearly identify the
    - seller, and
    - purchaser, and
  - confirm the sale was an arm's length transaction;
- review the final settlement statement before the Mortgage Loan Origination Date to confirm accuracy of the
  - purchase price,
  - closing costs, and
  - any cash in/out to the seller and purchaser; and
- submit a copy of:
  - the final settlement statement at Delivery; and
  - all purchase/sales contracts and amendments to



- the Appraiser, and
- Fannie Mae.

## 202.02C Underwriting Value

### Requirements

Your Underwriting Value must not exceed the Appraised Value, as reduced by any adjustments you deem necessary, accounting for:

- your analysis of the Property's sales history; and/or
- Property deficiencies that cannot be cured within 6 months after the Appraisal Date.

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

- Appraised Value, or
- sum of the:
  - Property's acquisition price per the title company settlement statement, with no allocations to:
    - goodwill,
    - business value (permitted for Seniors Housing Properties),
    - intangibles,
    - furniture,
    - fixtures (unless customary in the market), or
    - equipment;
  - cost of capital improvements or repairs that increase the Property's value, if
    - completed and fully paid, or
    - sufficient funds for completion are deposited in the Completion/Repair Escrow or reserve account; and
  - actual acquisition costs, not exceeding 3% of the acquisition price, including:
    - Origination Fee;
    - arm's length acquisition fee (generally 1% - 2%) paid to an



unrelated Person if documented in the Settlement Statement;

- third-party report fees;
- Borrower-paid legal fees incurred on your behalf;
- title search and title insurance fees;
- survey fees;
- real estate and stamp taxes;
- deed-recording fees; and
- credit report charges.

## Guidance

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

- prepaid or escrowed
  - real estate taxes, or
  - insurance premiums;
- prepaid
  - utilities,
  - Mortgage Loan interest, including any interest rate buydown expense,
  - rents, or
  - security deposits;
- funded
  - Replacement Reserve (including any initial deposit),
  - Interest Rate Cap cost,
  - operating or Restabilization Reserve, or
  - Borrower-controlled Property operating or capital accounts;
- fees included in the Gross Note Rate, including any
  - Origination Fee, or
  - broker fee;
- acquisition fees paid to a Borrower-Affiliate; and



- for an MAH Property, pre-paid Bond-related and compliance monitoring fees.

## Section 203 Income Analysis

### 203.01 Underwritten Net Cash Flow (Underwritten NCF)

#### Guidance

When calculating the Property's Underwritten NCF, you should:

- use objective measures to determine the revenue generated and the expenses incurred;
- use the best information available, including
  - historical performance, and
  - anticipated operations;
- use best efforts to obtain operating statements for the prior 3 years;
- obtain the prior full-year operating statement or, at a minimum, one covering the trailing 6 months (annualized);
- request trailing 3-month physical and economic vacancy history if not included on the operating statement provided;
- use best efforts to obtain a current aged receivables report, listing rent delinquencies at day
  - 30,
  - 60, and
  - 90;
- review operating statement and rent roll updates, ensuring no inexplicable variances compared to previously provided statements;
- if variances are identified compared to previously provided statements, they should be
  - investigated,
  - reconciled, and
  - documented in the Transaction Approval Memo; and
- consider if the Property can achieve the Underwritten NCF within 12 months after the Mortgage Loan Origination Date, absent
  - unexpected market conditions, or



- other unforeseen events.

You may, for:

- acquisitions only, rely on the Borrower's budgeted operating statements; and
- all Mortgage Loans, calculate the Underwritten NCF more conservatively, if warranted by specific Property circumstances.

### Requirements

You must:

- determine the reasonableness of the Property's current income and expenses based on historical data from external real estate data aggregator services; and
- 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 (CONVENTIONAL LOANS)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
1		<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• Calculate the base rent as the rent amount per unit prior to the Decontrol Event date.</li> <li>• Use the base rent for each applicable unit to determine the Gross Rental Income.</li> <li>• Increase the base rent by the appropriate percentage allowed per New York City Rent Stabilization laws per annum through the present rent roll date.</li> </ul>
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). <sup>1</sup>
5	MINUS	Concessions - the aggregate amount of forgone residential rental income from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc. <sup>1</sup>





REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
6	MINUS	Bad debt - the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt. <sup>1</sup>
	EQUALS	NET RENTAL INCOME (NRI) <sup>2</sup>
<p>1 The total of Items 4, 5, and 6 must equal the greater of</p> <ul style="list-style-type: none"> <li>• the difference between the trailing 3-month net rental collections (annualized) and GPR, or</li> <li>• 5% of GPR.</li> </ul> <p>2 NRI must reflect projected operations for the underwriting period.</p> <p>a. You must assess the NRI using these parameters and fully support any changes:</p> <ul style="list-style-type: none"> <li>• 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).</li> <li>• If rents and collections are stable or increasing, and any negative fluctuation can be reconciled and adequately explained, you may use an NRI that exceeds the trailing 3-month NRI, provided the NRI does not exceed the highest 1-month NRI used in the trailing 3-month NRI calculation.</li> </ul> <p>b. You must assess declines in NRI using these parameters:</p> <ul style="list-style-type: none"> <li>• Assess if any decline occurred in NRI for the trailing 3-month period compared to the trailing 6-month period and the trailing 12-month period.</li> <li>• If the decline in NRI for the trailing 3-month period is greater than 2% compared to either the trailing 6-month period or the trailing 12-month period, you must adjust the NRI downward to an amount that is 2% less than the lowest NRI for the trailing 1-month, 3-month, 6-month, or 12-month period.</li> <li>• 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.</li> </ul>		
CALCULATION OF OTHER INCOME		



**REQUIRED UNDERWRITTEN NCF  
(CONVENTIONAL LOANS)**

Item	Function	Description
7	PLUS	<p>Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must:</p> <ul style="list-style-type: none"> <li>• be stable;</li> <li>• be common in the market;</li> <li>• exclude one-time extraordinary non-recurring items; and</li> <li>• be supported by prior years.</li> </ul> <p>You must assess the individual month's other income within the prior full-year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized).</p> <p>If there are fluctuations, you may use other income that exceeds the trailing 3-month other income (annualized), provided it does not exceed the highest 1-month other income used in the trailing 3-month other income calculation.</p> <p>When determining the other income, you must</p> <ul style="list-style-type: none"> <li>• adjust Items 8 through 12, and</li> <li>• include specific income for Items 13 through 15 when applicable.</li> </ul>

**CALCULATION OF COMMERCIAL INCOME**

8	PLUS	Actual income from leased and occupied commercial space per <a href="#">Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases</a> .
9	PLUS	Actual income from STR units.
10	MINUS	10% of the actual commercial space income (total of Items 8 plus 9). <sup>3</sup>
11	PLUS	Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections. <sup>3</sup>

<sup>3</sup> If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
12	PLUS	Premiums, provided that the income must: <ul style="list-style-type: none"><li>• be stable or increasing;</li><li>• be typical (in type and amount) in the market;</li><li>• be supported by prior years; and</li><li>• not exceed the income generated over the most recent year or trailing 12-month period.</li></ul>
13	PLUS	Corporate premiums, provided that this income must: <ul style="list-style-type: none"><li>• not be included for more than 10% of the Property's units;</li><li>• be stable or increasing;</li><li>• be typical (in type and amount) in the market;</li><li>• be supported by prior years; and</li><li>• not exceed the income generated over the most recent year or trailing 12-month period.</li></ul>
14	PLUS	Laundry and vending.
15	PLUS	Parking - income from residential parking/garage spaces.



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
16	PLUS	<p>All other income, including the following:</p> <ul style="list-style-type: none"> <li>• application fees;</li> <li>• cable;</li> <li>• club house rental;</li> <li>• fees charged tenants for returned checks due to insufficient funds (NSF);</li> <li>• forfeited security deposits;</li> <li>• late fees;</li> <li>• miscellaneous;</li> <li>• non-refundable fees;</li> <li>• pet fees;</li> <li>• reimbursements;</li> <li>• storage;</li> <li>• temporary tenants;</li> <li>• utility; and</li> <li>• other.</li> </ul> <p>The following must not be included:</p> <ul style="list-style-type: none"> <li>• corporate tax and refunds;</li> <li>• delinquency;</li> <li>• Financial Accounting Standards Board 13 straight-line lease income;</li> <li>• gain on sale;</li> <li>• insurance proceeds;</li> <li>• interest income;</li> <li>• interest on security deposits;</li> <li>• mobile home sales;</li> <li>• partnership funds received;</li> <li>• sales tax collected;</li> <li>• security deposits collected;</li> <li>• security deposits returned;</li> <li>• straight-line lease income; and</li> <li>• tax reimbursement from real estate taxes.</li> </ul>
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
<b>CALCULATION OF OPERATING EXPENSES</b>		



**REQUIRED UNDERWRITTEN NCF  
(CONVENTIONAL LOANS)**

Item	Function	Description
17	MINUS	<p>Line-by-line stabilized operating expenses.</p> <p>Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a</p> <ul style="list-style-type: none"><li>• lease-up,</li><li>• rehabilitation, or</li><li>• other short-term positive or negative factors.</li></ul> <p>Non-recurring, extraordinary expenses must not be included.</p> <p>You must access:</p> <ul style="list-style-type: none"><li>• past operating history;</li><li>• the Appraiser's expense analysis;</li><li>• all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and</li><li>• the Borrower's budget (in the case of an acquisition).</li></ul> <p>You must:</p> <ul style="list-style-type: none"><li>• analyze historical operations at the Property; and</li><li>• apply an appropriate increase over the prior year's operations in determining an estimate; and</li><li>• include all STR-related expenses in their respective expense line items, including<ul style="list-style-type: none"><li>- cleaning,</li><li>- furnishing, and</li><li>- repairs.</li></ul></li></ul>



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
17(a)	MINUS	<p>Property management fee equal to the greatest of:</p> <ul style="list-style-type: none"><li>• 3% of EGI<sup>4</sup>;</li><li>• actual property management fee, provided you<ul style="list-style-type: none"><li>- exclude any portion of a non-arm's length property management fee that is subordinated to the Mortgage Loan, and</li><li>- include any known contractual fee increases occurring over the next 24 months; or</li></ul></li><li>• Appraiser's concluded market property management fee.</li></ul>
<p>4 Minimum property management fee may be 2.5% of EGI (rather than 3% of EGI) provided that the:</p> <ul style="list-style-type: none"><li>• underwritten management fee is at least \$300 per unit;</li><li>• actual third-party management fee is equal to or less than the underwritten management fee;</li><li>• Mortgage Loan has an original principal amount greater than \$3 million; and</li><li>• market management fees support the underwritten management fee for similarly sized properties.</li></ul>		



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
17(b)	MINUS	<p>Real estate taxes based on the greatest of:</p> <ul style="list-style-type: none"> <li>• actual future tax bill(s) covering a full calendar year;</li> <li>• prior full year's taxes multiplied by 103%; or</li> <li>• in California, the sum of:               <ul style="list-style-type: none"> <li>- any special assessments; plus</li> <li>- the millage rate multiplied by the greater of the                   <ul style="list-style-type: none"> <li>▪ Mortgage Loan amount, or</li> <li>▪ assessed value.</li> </ul> </li> </ul> </li> </ul> <p>You must, for:</p> <ul style="list-style-type: none"> <li>• any tax abatement, exemption, deferral, or PILOT expiring within 36 months after the Mortgage Loan Origination Date, include fully assessed real estate taxes;</li> <li>• any Property whose sale would trigger an automatic reassessment, include any expected increase;</li> <li>• any Property with an annual or scheduled reassessment within 12 months after the Mortgage Loan Origination Date, include any expected increase;</li> <li>• all Properties:               <ul style="list-style-type: none"> <li>- use the most recently available assessed value (even if preliminary); and</li> <li>- do not use expected results from a protest, unless the protest is legally binding on the Borrower and taxing authority.</li> </ul> </li> </ul> <p>If the Property has real estate tax abatements, exemptions, deferrals, or PILOTs, they must:</p> <ul style="list-style-type: none"> <li>• be in effect at closing, per written documentation from the state or local tax assessor; and</li> <li>• survive a foreclosure on the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, deferral, or PILOT (i.e., it is tied to the Property and not the owner).</li> </ul>



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
17(b) continued	MINUS	<p>If the timeframe for the real estate tax abatement, exemption, deferral, or PILOT is shorter than the Mortgage Loan term, or begins phasing out or expires within 5 years after the Maturity Date, you must consider:</p> <ul style="list-style-type: none"> <li>• a Bifurcated Mortgage Loan structure (i.e., 2 notes secured by a single first Lien Security Instrument);</li> <li>• an amortization schedule that accommodates the elimination of the abatement; or</li> <li>• providing clear justification and support in the refinance analysis.</li> </ul>
17(c)	MINUS	<p>Insurance equal to:</p> <ul style="list-style-type: none"> <li>• the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or</li> <li>• for insurance policies with a remaining term of: <ul style="list-style-type: none"> <li>- less than 6 months, 110% of the current expense;</li> </ul> </li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>- 6 to 12 months, 105% of the current expense.</li> </ul> <p>For an acquisition:</p> <ul style="list-style-type: none"> <li>• only underwrite premiums from the purchaser's carrier; and</li> <li>• disregard the seller's current insurance <ul style="list-style-type: none"> <li>- premiums, or</li> <li>- estimates.</li> </ul> </li> </ul> <p>If the Property's area is prone to Catastrophic Events, ensure the expense aligns with the market.</p>





**REQUIRED UNDERWRITTEN NCF  
(CONVENTIONAL LOANS)**

Item	Function	Description
17(d)	MINUS	Utilities, including the following: <ul style="list-style-type: none"><li>• building lights;</li><li>• dumpster rental;</li><li>• electricity;</li><li>• fuel oil;</li><li>• heat;</li><li>• natural gas;</li><li>• non-common area electric;</li><li>• parking lot electric;</li><li>• parking lot lights;</li><li>• septic;</li><li>• trash removal (including contract);</li><li>• utilities;</li><li>• vacant unit utilities; and</li><li>• other.</li></ul>
17(e)	MINUS	Water and sewer.



**REQUIRED UNDERWRITTEN NCF  
(CONVENTIONAL LOANS)**

Item	Function	Description
17(f)	MINUS	Repairs and maintenance, including the following: <ul style="list-style-type: none"> <li>• appliances;</li> <li>• building;</li> <li>• carpet;</li> <li>• cleaning;</li> <li>• common area maintenance;</li> <li>• decorating;</li> <li>• electrical;</li> <li>• elevator;</li> <li>• equipment repairs;</li> <li>• exterminating services;</li> <li>• floor covering replacement;</li> <li>• HVAC;</li> <li>• janitorial;</li> <li>• landscaping (exterior);</li> <li>• landscaping (interior/plants);</li> <li>• lawn and grounds;</li> <li>• lock/keys;</li> <li>• maid service;</li> <li>• make ready;</li> <li>• mechanical;</li> <li>• painting;</li> <li>• parking lot;</li> <li>• parking lot lighting repair;</li> <li>• pest control;</li> <li>• plumbing;</li> <li>• pool;</li> <li>• rubbish removal;</li> <li>• scavenger;</li> <li>• snow removal;</li> <li>• supplies;</li> <li>• supplies (cleaning);</li> <li>• turnover;</li> <li>• vacancy preparation;</li> <li>• water irrigation;</li> <li>• water treatment;</li> <li>• window covering repair/replacement (minor); and</li> <li>• other.</li> </ul>



**REQUIRED UNDERWRITTEN NCF  
(CONVENTIONAL LOANS)**

Item	Function	Description
17(g)	MINUS	Payroll and benefits, including the following: <ul style="list-style-type: none"><li>• 401 k;</li><li>• bonuses;</li><li>• contract labor (carpet cleaning);</li><li>• contract labor (make ready);</li><li>• contract work;</li><li>• custodian salary;</li><li>• employee benefits;</li><li>• employee expense;</li><li>• employee insurance;</li><li>• FICA;</li><li>• health benefits;</li><li>• labor plumbing;</li><li>• manager salaries;</li><li>• payroll and benefits;</li><li>• payroll and processing;</li><li>• payroll taxes;</li><li>• salaries;</li><li>• salaries maintenance;</li><li>• security personnel's salary;</li><li>• subcontracted labor;</li><li>• temporary help;</li><li>• unemployment insurance;</li><li>• worker's compensation; and</li><li>• other.</li></ul>



**REQUIRED UNDERWRITTEN NCF  
(CONVENTIONAL LOANS)**

Item	Function	Description
17(h)	MINUS	Advertising and marketing, including the following: <ul style="list-style-type: none"><li>• apartment finder/guide;</li><li>• banners;</li><li>• brochures;</li><li>• building signage;</li><li>• finder's fee;</li><li>• media commissions;</li><li>• newspaper ads;</li><li>• promotions;</li><li>• resident relations;</li><li>• signage;</li><li>• supplies (marketing);</li><li>• tenant relations;</li><li>• Yellow Pages; and</li><li>• other.</li></ul>
17(i)	MINUS	Professional fees, including the following: <ul style="list-style-type: none"><li>• accounting or tax preparation fees;</li><li>• architectural fees;</li><li>• attorney fees;</li><li>• bookkeeping fees;</li><li>• engineering fees;</li><li>• legal fees/expense;</li><li>• professional fees; and</li><li>• other.</li></ul>



**REQUIRED UNDERWRITTEN NCF  
(CONVENTIONAL LOANS)**

Item	Function	Description
17(j)	MINUS	<p>General and administrative, including the following:</p> <ul style="list-style-type: none"><li>• ad valorem tax;</li><li>• administrative fee;</li><li>• alarm system;</li><li>• answering service;</li><li>• auto leasing;</li><li>• auto repairs;</li><li>• bank charges;</li><li>• broker commission/fees;</li><li>• business license;</li><li>• cable;</li><li>• cell phone/pager;</li><li>• commissions;</li><li>• computer repairs;</li><li>• courtesy patrol;</li><li>• credit check;</li><li>• donations;</li><li>• education;</li><li>• entertainment;</li><li>• equipment lease/rental;</li><li>• eviction expense;</li><li>• fire extinguisher;</li><li>• freight and shipping;</li><li>• leased equipment;</li><li>• leasing commissions;</li><li>• leasing office expense;</li><li>• licenses;</li><li>• life safety;</li></ul>



**REQUIRED UNDERWRITTEN NCF  
(CONVENTIONAL LOANS)**

Item	Function	Description
17(j) continued	MINUS	<ul style="list-style-type: none"><li>• mileage;</li><li>• miscellaneous general and administrative expenses;</li><li>• model apartment;</li><li>• moving expense;</li><li>• office supplies;</li><li>• office unit (non-revenue unit);</li><li>• permits;</li><li>• personal property taxes;</li><li>• postage;</li><li>• printing;</li><li>• public relations;</li><li>• rental commissions;</li><li>• rental expense;</li><li>• security;</li><li>• security vehicle and maintenance vehicle;</li><li>• space designs and drawings;</li><li>• subscription dues;</li><li>• telephone;</li><li>• travel;</li><li>• truck repairs;</li><li>• uniform service;</li><li>• utility vehicle;</li><li>• vehicle lease;</li><li>• vehicle repair and expense; and</li><li>• other.</li></ul>



**REQUIRED UNDERWRITTEN NCF  
(CONVENTIONAL LOANS)**

Item	Function	Description
17(k)	MINUS	<p>Other expenses, including the following:</p> <ul style="list-style-type: none"> <li>• ancillary expense;</li> <li>• franchise taxes and fees;</li> <li>• general building;</li> <li>• miscellaneous;</li> <li>• ongoing costs associated with any Interest Rate Cap Agreement;</li> <li>• other expenses/costs; and</li> <li>• for STR:               <ul style="list-style-type: none"> <li>- taxes, fees, etc. imposed by the governing jurisdiction; and</li> <li>- if applicable, the difference in actual lease STR income and an equivalent market rate apartment rent (as if leased as an apartment unit).</li> </ul> </li> </ul> <p>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 (<math>\\$1,000 - \\$900 = \\$100 \times 12</math> months) as an "other" expense.</p> <p>Do not include the following:</p> <ul style="list-style-type: none"> <li>• amortization;</li> <li>• depreciation;</li> <li>• entity (i.e., filing, license, etc.);</li> <li>• financing fees;</li> <li>• initial or upfront costs associated with any Interest Rate Cap Agreement;</li> <li>• interest;</li> <li>• legal fees associated with securing Mortgage Loans;</li> <li>• life insurance;</li> <li>• owner's draw;</li> <li>• partnership fees;</li> <li>• principal payments on any loan;</li> <li>• sales tax paid; and</li> <li>• trust account fees.</li> </ul>



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
18	MINUS	For a Condominium Property or a Shared Use Property: <ul style="list-style-type: none"> <li>• annual assessment fees, including any expected assessment fee escalation; and</li> <li>• any known special assessments.</li> </ul>
19	MINUS	Ground rent for any Ground Lease or any master lease. Ground Lease bonus rent and/or escalations during the term of the Mortgage Loan must be considered when calculating Underwritten NCF and analyzing refinance risk.
	EQUALS	UNDERWRITTEN NOI
20	MINUS	Replacement Reserve expense, including a <ul style="list-style-type: none"> <li>• minimum annual amount of \$200 per unit, or</li> <li>• greater amount if required in Part II, Chapter 4: Inspections and Reserves, Section 405: Replacement Reserve.</li> </ul> <p>Replacement Reserve expense must be included whether the escrow is funded or not.</p>
	EQUALS	UNDERWRITTEN NCF

## 203.02 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 203.01: Underwritten Net Cash Flow (Underwritten NCF).





Item	Function	Description
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  <ul style="list-style-type: none"><li>• actual note rate, or</li><li>• required Underwriting Interest Rate Floor per Form 4660 .</li></ul>

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 204

### Refinance Risk Analysis

#### Requirements

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

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

#### 204.01 Base Assumptions

#### Requirements

For Loan Year 1, use the Underwritten NCF. For all subsequent Loan Years, you must derive proforma NCF as follows:



Factor	For...	Use...
Income Growth Rate	<ul style="list-style-type: none"> <li>• Structured Transactions, and</li> <li>• Mortgage Loans secured by multiple Properties</li> </ul>	2%.
	All other Mortgage Loans	the growth rates published in DUS Gateway for the Property.
Economic Vacancy	All Mortgage Loans	the underwritten economic vacancy rate.
Real Estate Taxes	California Properties	<ul style="list-style-type: none"> <li>• acquisitions, 2%; or</li> <li>• refinances, no trending is required until the year when the actual tax bill would surpass the underwritten taxes, then trend by 2%.</li> </ul>
	Non-California Properties	<ul style="list-style-type: none"> <li>• use 3% for               <ul style="list-style-type: none"> <li>- Structured Transactions, and</li> <li>- Mortgage Loans secured by multiple Properties; and</li> </ul> </li> <li>• for all other Mortgage Loans, use the growth rates published in DUS Gateway for the Property.</li> </ul>



Factor	For...	Use...
Real Estate Tax Abatements, Exemptions, Deferrals, or PILOTs	All Mortgage Loans	<ul style="list-style-type: none"> <li>• if an abatement, exemption, deferral, or PILOT begins phase out or expires within 5 years after the Maturity Date, use fully assessed real estate taxes; and</li> <li>• if an abatement expires or taxes are expected to rise during the Mortgage Loan term, increase taxes to the expected level, then trend by:               <ul style="list-style-type: none"> <li>- 3% for                   <ul style="list-style-type: none"> <li>▪ Structured Transactions, and</li> <li>▪ Mortgage Loans secured by multiple Properties; or</li> </ul> </li> <li>- the growth rate published in DUS Gateway in the year prior to the adjustment for all other Mortgage Loans.</li> </ul> </li> </ul>
Management Fee	All Mortgage Loans	the underwritten rate.
Replacement Reserves	All Mortgage Loans	the underwritten value.
Insurance and Other Expenses	<ul style="list-style-type: none"> <li>• Structured Transactions, and</li> <li>• Mortgage Loans secured by multiple Properties</li> </ul>	3%.
	All other Mortgage Loans	the growth rates published in DUS Gateway for the Property.



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

For...	Use...
Amortization	<ul style="list-style-type: none"><li>• 30 years, or</li><li>• the amortization for the applicable product or features.</li></ul>
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

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.

## 204.02 Alternative Assumptions

### ☑ Requirements

You must:

- present an alternative risk analysis using assumptions that deviate from the base assumptions if:
  - you determine the base assumptions do not appropriately estimate the Property's NCF over the Mortgage Loan term; or
  - third-party data providers project rent growth materially below Fannie Mae growth rates published in DUS Gateway;
- identify and support any deviations with
  - reliable evidence, and
  - historical and projected market trends; and
- state your conclusions, discussing any mitigating factors, such as the:



- strength of the
  - Sponsor, or
  - submarket; and
- Property's
  - characteristics,
  - operating history, and
  - performance.

### ➔ Guidance

Income and Expense Growth Rates: Income and expense trending should incorporate projected market rates based on general economic, market, and submarket conditions from reliable sources, as well as the Property's characteristics. For example:

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



tenants, commercial income should be adjusted appropriately.

- A substantially renovated Property, with improved in-unit finishes and/or new/renovated amenities, may experience different income and expense growth rates than properties of the same age; therefore, growth trends differing from the Base Assumption Income Growth Rate may be supported.

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

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

## Section 205

### Cash Out Analysis

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#### Requirements

You must:

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

When underwriting a cash-out transaction, you must consider and document in the Transaction Approval Memo:

- the amount of hard equity remaining in the Property's debt structure, excluding prior permanent financing costs, such as interest or prepayment premium;
- the length of time the Borrower has owned the Property;
- the Property's
  - effective age, and
  - current physical condition;
- over the ownership period, any improvement in
  - asset quality,
  - the Property's operations (i.e., its NCF), or



- value;
- if the Property's value increased due to an increase in NCF, rather than a decrease in the capitalization rate; and
- for New Construction, the Property's total development costs basis per the New Construction table:

New Construction	
For...	The Property's total development cost basis includes...
Land	<ul style="list-style-type: none"> <li>• Purchase price; plus</li> <li>• Value created since acquisition from               <ul style="list-style-type: none"> <li>- zoning changes,</li> <li>- demolition,</li> <li>- infrastructure improvements,</li> <li>- parcel assembly over time, and</li> <li>- other subjective entitlements.</li> </ul> </li> </ul> <p>Note: Valuation should be supported by recent land sale activity on a market and cash basis.</p>
Hard Costs	<p>Expenses for:</p> <ul style="list-style-type: none"> <li>• items including               <ul style="list-style-type: none"> <li>- substructure,</li> <li>- shell,</li> <li>- interiors,</li> <li>- construction services,</li> <li>- equipment, and</li> <li>- furnishings;</li> </ul> </li> <li>• developer fee (8% maximum); and</li> <li>• general contractor fee (10% maximum).</li> </ul>



New Construction	
Soft Costs	Fees for: <ul style="list-style-type: none"> <li>• Appraisal, market studies, etc.;</li> <li>• professional services, including               <ul style="list-style-type: none"> <li>- architecture,</li> <li>- engineering,</li> <li>- consulting,</li> <li>- legal, and</li> <li>- accounting;</li> </ul> </li> <li>• review, impact, and testing (i.e., surveys, feasibility, environmental, geotechnical);</li> <li>• building permits and utility access; and</li> <li>• any HUD and LIHTC processing.</li> </ul>
Construction Financing Costs	Expenses for: <ul style="list-style-type: none"> <li>• construction loan financing, including               <ul style="list-style-type: none"> <li>- interest, and</li> <li>- origination fee;</li> </ul> </li> <li>• construction period               <ul style="list-style-type: none"> <li>- real estate taxes,</li> <li>- insurance, and</li> <li>- utilities; and</li> </ul> </li> <li>• Bond related fees.</li> </ul>
HUD or LIHTC New Construction	Amount supported by the Cost Certification.

Cash Out Transaction Support	
Factor...	Must...
Cash Out Proceeds	Be commensurate with the length of the ownership period.
Property Condition	Have improved or been good over the ownership period.
Property NCF	Have improved over the ownership period.





Cash Out Transaction Support	
Property Value	Have increased due to higher NCF over the ownership period.

## Section 206

### Borrower Business Plan

#### Requirements

For acquisitions or refinances where the Property is being repositioned through a substantial capital improvement plan, you must analyze (and document in your Transaction Approval Memo) the:

- Sponsor's:
  - business plan (either through a written plan or by a conversation with the Sponsor), including
    - market rent growth expectations,
    - any planned capital improvements,
    - any expected rent premiums after renovations,
    - operating expense management, and
    - value appreciation through capitalization rate compression;
  - expected ownership period for the Property relative to the Mortgage Loan term; and
  - expected investment returns from owning/operating the Property, assuming
    - acquisition at the Underwriting Value, and
    - a hypothetical disposition at the Mortgage Loan's Maturity Date;
- Mortgage Loan's Underwritten Capitalization Rate; and
- motivation in the Property's investment compared to the Borrower's other investment alternatives.

## Section 207

### Rent-Stabilized Properties

#### Guidance

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

- underwrite Property income based on current rents;



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



## Chapter 3 Legal Compliance

### Section 301 Zoning and Legally Non-Conforming Status

#### 301.01 Zoning

##### Requirements

For each Property, you must:

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

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

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

#### 301.02 Legal Non-Conforming Use

##### Requirements

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

- ensure the Borrower executes Modifications to Multifamily Loan and Security Agreement (Legal Non-Conforming Status) ([Form 6275](#));
- confirm, following a casualty, the percentage of damage to the Property's Improvements (i.e., the destruction threshold) at which the Property jurisdiction would prohibit the rebuilding of all impacted Improvements to the pre-casualty use and condition under current
  - laws,
  - zoning requirements, and
  - building codes; and



- if the destruction threshold is less than 50%, not Deliver the Mortgage Loan.

### 301.03 Legal Non-Conforming Characteristics

#### Requirements

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

- ensure the Borrower executes the Modifications to Multifamily Loan and Security Agreement (Legal Non-Conforming Status) ([Form 6275](#));
- confirm whether, if fully or partially destroyed, the Property's Improvements can be fully rebuilt to the pre-casualty condition per current
  - laws,
  - zoning requirements, and
  - building codes; and
- if the Property's Improvements cannot be fully rebuilt to the pre-casualty condition,
  - evaluate if the as-rebuilt Property will support the Mortgage Loan at the current Tier, and
  - document your analysis in the Transaction Approval Memo.

#### Guidance

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

- conducting a threshold analysis to determine the resulting actual amortizing DSCR if the reconstructed Improvements cannot be rebuilt as-is per current law;
- the likelihood of a casualty event (e.g., wind, earthquake, fire, flood, mine subsidence, etc.);
- the percentage of damage to the Improvements at which the Property's jurisdiction will require the Property be rebuilt to current zoning and land use requirements (i.e., the destruction threshold);
- which Property characteristics the destruction threshold percentage applies to, such as
  - market value,



- assessed value,
- replacement cost, or
- unit count;
- for Properties with multiple buildings, if the destruction threshold percentage applies to
  - each building, or
  - all buildings as a whole;
- the replacement cost to rebuild per current requirements for
  - zoning, and
  - land use;
- the Property's continued
  - marketability, and
  - economic viability;
- the amount and type of Borrower-maintained insurance coverage required per [Part II, Chapter 5: Property and Liability Insurance, Section 501.02C: Ordinance or Law Insurance](#);
- insurance loss proceeds payout, compared to increased rebuilding costs, including from
  - building code changes,
  - Americans with Disabilities Act compliance, and
  - the municipality's local zoning requirements (e.g., green compliance for new buildings, etc.);
- the sufficiency of estimated insurance proceeds from ordinance or law insurance and other coverages to repay the Mortgage Loan in the event of partial or full
  - casualty, or
  - condemnation; and
- for a Tier 3 or Tier 4 Mortgage Loan, if requiring execution of the Limited Payment Guaranty ([Form 6020.LPG](#)) would mitigate the risk of the as-rebuilt Property not supporting a Tier 2 Mortgage Loan.

## Section 302

## Easements

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### Requirements

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

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

### Guidance

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

Easements that serve other properties will generally be acceptable if they

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

## **Section 303** Liens and Encumbrances

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### **303.01** Generally

#### Requirements

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

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

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

- determine whether the restrictions are acceptable, and
- make recommendations for addressing the restrictions.



Examples of restrictions that must be analyzed include restrictive covenants and any restrictions that have been offered, or accepted, in order to obtain a zoning approval or building permit.

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

### ➔ Guidance

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

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

### ☑ Requirements

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

### ➔ Guidance

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

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



under a mortgage or deed of trust to execute an assumption or similar agreement if a Foreclosure Event occurs.

### 303.02 Property Previously Secured Bond Financing

#### Requirements

If the Property...	You must...
Previously secured taxable or tax-exempt bonds	<ul style="list-style-type: none"> <li>• determine if the Property is subject to any requirements, restrictions or other features that survived repayment, and</li> <li>• analyze whether the surviving features will have a material adverse impact on you, Fannie Mae, or the Mortgage Loan.</li> </ul>
Currently secures taxable or tax-exempt bonds that are being retired with proceeds of the Mortgage Loan	<ul style="list-style-type: none"> <li>• review the bond documents, and</li> <li>• analyze the impact of any surviving features of the financing.</li> </ul>

#### 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

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#### Requirements

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

The title policy must:

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



6025.FL.AR); and

- appropriate Endorsements such as:
  - Zoning (where available);
  - Condominium;
  - PUD;
  - Variable Rate;
  - Leasehold Mortgage;
  - Location;
  - Unlocated Easements; and/or
  - Contiguity-Multiple Parcel;
- delete the standard survey exception;
- include a note on Schedule B, Part II listing you as the secured party and Fannie Mae as the assignee, for any financing statement filed in the recording office;
- not list any financing statement as an exception on Schedule B, Part I; and
- insure that any taxes, assessments, or other lienable items are not yet due and payable.

### 304.01 Title Insurance Company

#### Guidance

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

### 304.02 Policy Form

#### Guidance

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

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

### 304.03 Electronic Policies



### → Guidance

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

## 304.04 Insured

### → Guidance

The title policy should

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

## 304.05 Effective Date

### ☑ Requirements

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

### → Guidance

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

## 304.06 Survey Exception

### → Guidance

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

## 304.07 Exception for Taxes, Assessments, or Other Lienable Items

### → Guidance

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

## 304.08 Financing Statements



### → 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 2021 Minimum Standard Detail Requirements), including the required certification; and
- allow the title company to delete the standard survey exception from the title policy.

#### Guidance

An acceptable as-built survey:

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

#### Requirements

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



## → Guidance

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

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

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

### 305.03 Decision Not to Obtain a Survey

#### Requirements

If you do not require an as-built survey:

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

### 305.04 Location of Improvements

#### Requirements

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

## Section 306 Security Interests in Personal Property

### 306.01 Uniform Commercial Code (UCC) Financing Statements

#### Requirements

You must:



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

## 306.02 Creating and Perfecting the Security Interest

### → Guidance

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

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

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.Borrower).
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	<ul style="list-style-type: none"><li>• Obtain a security agreement from each third party that owns Personal Property.</li><li>• Verify that the Security Instrument and each third party security agreement contains a granting clause creating a security interest in all Personal Property.</li><li>• 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.</li></ul>
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 and Lease Audit

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#### Requirements

Before the Commitment Date, you must ensure:

- your qualified employee per [Part V, Chapter 5: Surveillance, Section 502.05A: Qualifications](#):
  - performs a physical inspection of the Property; and
  - completes the MBA Standard Inspection Form; and
- a lease audit was conducted reconciling the inspection findings with the:
  - rent roll; and
  - lease terms.

You must:

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

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

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

#### Guidance

When auditing the leases:

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





- 10% of the leases;
- at least 50% of the audited leases should include a combination of
  - inspected units,
  - recent renewals, and
  - newly signed leases sufficient to verify rent trends;
- if you detect material discrepancies during the initial review, increase the number of lease reviews;
- include a tenant file review; and
- review the cash ledger or receipts journal to validate rent collections.

## Section 402 Brokered Transactions

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### Requirements

For any Brokered Transaction, you must order:

- all third-party underwriting reports; and
- a Brokered Transaction Inspection per [Form 4229](#), unless the Property had an overall rating of 1 on your most recent inspection per [Part V, Chapter 5: Surveillance, Section 502: Property Inspections](#), for a
  - Supplemental Mortgage Loan, or
  - Choice Refinance Loan.

### Operating Procedures

To obtain a Brokered Transaction Inspection, you must:

- use a Fannie Mae-approved Brokered Transaction inspector per [Form 4229](#);
- request an exterior inspection; and
- not discuss the Property's rating with the Brokered Transaction inspector.

### Requirements

After receiving the Brokered Transaction Inspection report, you must:

- review



- the Brokered Transaction Inspection report,
- any required PCA Report, and
- the MBA Standard Inspection Form;
- ensure all rating differences among these 3 reports are:
  - reconciled;
  - approved by your Chief Underwriter; and
  - documented in your Transaction Approval Memo; and
- not Deliver a Mortgage Loan if the Brokered Transaction Inspection's overall rating is 4 or 5.

You must:

- determine if any of these reports identifies
  - deferred maintenance,
  - near-term capital item replacement,
  - necessary life safety or critical repairs, or
  - major components exhibiting a declining trend;
- incorporate all associated costs into the
  - Completion/Repair Schedule, or
  - Replacement Reserve Schedule; and
- document the items in your Transaction Approval Memo.

### Operating Procedures

At Delivery, upload the Brokered Transaction Inspection report to DUS DocWay.

Data Entry	
For...	You must complete the following data fields...
DUS Gateway	<ul style="list-style-type: none"><li>• Broker/Correspondent Company Name; and</li><li>• Broker/Correspondent Individual Name.</li></ul>
Acquisition Systems	<ul style="list-style-type: none"><li>• Broker/Correspondent Company; and</li><li>• fees paid to the Broker or Correspondent.</li></ul>



## Section 403 Property Condition Assessment (PCA)

### 403.01 When to Perform a PCA

#### Requirements

Before the Commitment Date, you must:

- complete a PCA for each Property unless it is a Supplemental Mortgage Loan that complies with [Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402.05: Streamlined Underwriting](#); and
- ensure all:
  - [Potential Red Flags for Mortgage Fraud and Other Suspicious Activity](#) were considered; and
  - unresolved red flags were reported per [Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance](#).

### 403.02 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.

### 403.03 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 404 Completion/Repairs

### 404.01 Property Evaluation

#### Requirements

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

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

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

#### Guidance

The Completion/Repair Schedule should include:

- Property needs identified as Immediate Repairs in the PCA, including:
  - life safety repairs;
  - critical repairs;
  - deferred maintenance; and



- short-term replacement of capital items; and
- any capital improvements not recommended by the PCA Consultant that
  - the Borrower will make after the Mortgage Loan Origination Date, and
  - you want the Appraiser to include in its opinion of the market value of the Property on an “as completed” basis.

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

Type of item...	Complete as follows...
For items identified as life safety repairs in the PCA	Comply with <a href="#">Part II, Chapter 4: Inspections and Reserves, Section 404.03: Life Safety Issues</a> .
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 repairs required to comply with the Americans With Disabilities Act in the PCA	Within 90 days or less per applicable laws, ordinances, or building codes.
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 <ul style="list-style-type: none"> <li>• to be made by the Borrower in addition to those included on the PCA, and</li> <li>• included in the Appraisal opinion of the Property's market value on an as completed basis</li> </ul>	Comply with <a href="#">Part II, Chapter 2: Valuation and Income, Section 202.02A: Appraised Value</a> .



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.

#### 404.02 Completion/Repairs Funding

##### Requirements

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

##### Guidance

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

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

##### Requirements

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

#### 404.03 Life Safety Issues

##### Requirements

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

All life safety repairs must be completed

- for an acquisition, within 60 days after the Mortgage Loan Origination Date, or



- in all other cases, before delivering the Mortgage Loan to Fannie Mae.

### ➔ Guidance

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

## 404.04 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 405 Replacement Reserve

### 405.01 Determining Replacement Reserve

### ☑ Requirements

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

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

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

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



## 405.02 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.

## 405.03 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 406 Escrow Requirements for Taxes and Insurance

### 406.01 Escrows

#### Requirements

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

### 406.02 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.

### 406.03 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

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#### 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
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 analysis and related documentation supporting the economic feasibility and the amount of the reduction must be

- included in your Servicing File, and
- submitted via the MAMP.



### 501.03D Earthquake Insurance

#### Requirements

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

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

The deductible amount may not exceed the greater of

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

### 501.03E Terrorism Insurance

#### Requirements

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

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

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

The deductible amount may not exceed the greater of

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

#### Guidance

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

#### Operating Procedures

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

## 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

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#### ➔ 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 Property's market value.
- 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;



- include structured data per Seismic Risk Assessment Data Supplement (Form 4093); and
- include a report narrative.

#### ➔ Guidance

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

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

### 503.03 Acceptable Levels of Seismic Risk

#### ➔ Guidance

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

#### ☑ Requirements

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

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

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

#### ➔ Guidance

Your analysis should include:

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



stability, and life safety, and

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

#### 503.04 Seismic Retrofit Ordinances

##### Requirements

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

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

#### 503.05 Seismic Risk Mitigants

##### Guidance

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

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

Earthquake insurance does not mitigate building collapse risk.



## 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
- Affiliate's

#### Affordable Regulatory Agreement

Regulatory, land use, extended use, or similar agreement or recorded restriction limiting rents, imposing maximum income restrictions on tenants, or placing other affordability restrictions on the use or occupancy of the Property (whether imposed by a government entity or self-imposed by a Borrower per the Sponsor-Initiated Affordability Agreement ([Form 6490](#))).

#### ALTA

American Land Title Association



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

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

**Synonyms**

- Appraisals
- Appraisal's

**Appraisal Date** Effective date of value in the Appraisal.

**Appraised Value** Appraiser's opinion of the Property's market value documented in the Appraisal, on an "as is" basis, unless use of an "as completed" basis is specifically permitted per the Guide.

**Synonyms**

- Appraised Values

**Appraiser** Person engaged to estimate a Property's market value per USPAP.

**Synonyms**

- Appraiser's

**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

Brokered Transaction

Any Mortgage Loan sourced by you using a third party (e.g., a Mortgage Loan Broker or Correspondent) for which the third party receives a referral or other similar fee paid by you or on behalf of the Borrower. A Brokered Transaction does not include using an investment sale broker retained solely to assist in selling a Portfolio Mortgage Loan Property that is not being refinanced with Fannie Mae.

**Synonyms**

- Brokered Transactions

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	<p>Natural or man-made hazard resulting in an event of substantial extent causing</p> <ul style="list-style-type: none"><li>• significant physical damage or destruction,</li><li>• loss of life, or</li><li>• drastic change to the natural environment, such as<ul style="list-style-type: none"><li>- earthquake,</li><li>- flood,</li><li>- terrorist attack, or</li><li>- windstorm.</li></ul></li></ul> <p><b>Synonyms</b></p> <ul style="list-style-type: none"><li>• Catastrophic Events</li></ul>
Choice Refinance Loan	<p>Mortgage Loan refinancing a Portfolio Mortgage Loan using streamlined underwriting per <a href="#">Part III, Chapter 18: Choice Refinance Loans</a>.</p> <p><b>Synonyms</b></p> <ul style="list-style-type: none"><li>• Choice Refinance Loans</li></ul>
Collateral	Property, Personal Property, or other property securing a Mortgage Loan.
Commitment	<p>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.</p> <p><b>Synonyms</b></p> <ul style="list-style-type: none"><li>• Committed</li><li>• Commitments</li></ul>





Commitment Date	Date a Commitment is confirmed by Fannie Mae per Part IV, Chapter 2: Rate Lock and Committing, Section 204: Commitments.
Completion/Repair Escrow	Custodial Account funded on the Mortgage Loan Origination Date for Completion/Repairs or capital improvements per the Loan Documents.
Completion/Repair Schedule	<p>The Required Repair Schedule to the Multifamily Loan Agreement (<a href="#">Form 6001 series</a>) and the applicable parts of the Multifamily Loan Agreement, or other Fannie Mae-approved agreement, evidencing:</p> <ul style="list-style-type: none"><li>• the Borrower’s agreement to<ul style="list-style-type: none"><li>- fund the Completion/Repair Escrow, and</li><li>- perform Completion/Repairs; and</li></ul></li><li>• Completion/Repair Escrow disbursement terms.</li></ul> <p><b>Synonyms</b></p> <ul style="list-style-type: none"><li>• Completion/Repair Schedules</li></ul>
Completion/Repairs	<p>Repairs or capital item replacements and deferred maintenance:</p> <ul style="list-style-type: none"><li>• identified per the Property Condition Assessment; and</li><li>• required per the<ul style="list-style-type: none"><li>- Completion/Repair Schedule, or</li><li>- Completion/Repair Agreement.</li></ul></li></ul> <p><b>Synonyms</b></p> <ul style="list-style-type: none"><li>• Completion/Repair</li></ul>
Condominium	<p>Statutorily established Property ownership regime where Condominium Documents designate:</p> <ul style="list-style-type: none"><li>• individual units for separate ownership; and</li><li>• common areas for shared use and joint ownership by the unit owners.</li></ul>



Control	<p>Possessing, directly or indirectly, the power to direct or cause the management and operations of an entity (e.g., through the ownership of voting securities or other ownership interests, or by contract).</p> <p><b>Synonyms</b></p> <ul style="list-style-type: none"><li>• Controlling</li><li>• Controlled</li><li>• Controls</li></ul>
Controlling Interest	<p>For any entity, ownership or control of 50% or more of the ownership interests in the entity or the power or right to control or modify, directly or indirectly, the management and operations of the entity.</p>
Cooperative Organization	<p>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.</p>
Cost Certification	<p>Independent third-party audit report itemizing the Property's construction and development costs, including a statement of eligible and qualified basis, submitted to the state housing finance agency to obtain IRS Form 8609(s).</p>
Credit Facility	<p>Structured Transaction governed by a Master Credit Facility Agreement requiring Mortgage Loans and Properties to be</p> <ul style="list-style-type: none"><li>• cross-defaulted, and</li><li>• cross-collateralized.</li></ul> <p><b>Synonyms</b></p> <ul style="list-style-type: none"><li>• Credit Facilities</li><li>• Credit Facility's</li></ul>

## 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.

**Delivery** Submission of all correct, accurate, and certifiable documents, data, and information with all applicable documents properly completed, executed, and recorded as needed, and any deficiencies resolved to Fannie Mae's satisfaction.

**Synonyms**

- Deliver
- Delivered
- Deliveries

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

**DUS** Delegated Underwriting and Servicing

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

**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 203: 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

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

### **Synonyms**

- ESA
- Environmental Site Assessments



## Essential Elements

A Shared Use Property's amenities, common areas or infrastructure:

- impacting or essential to the:
  - operation,
  - use,
  - value and marketability,
  - leasing,
  - refinancing, and/or
  - zoning or legal compliance; and
- examples of Essential Elements may include:
  - parking,
  - roadways,
  - utility easements, and
  - amenities such as
    - laundry facilities,
    - clubhouses,
    - pools,
    - playgrounds,
    - tennis courts,
    - fitness clubs, and
    - recreational facilities.

## F

FEMA

Federal Emergency Management Agency

FIRREA

Financial Institutions Reform, Recovery, and Enforcement Act of 1989.



## Foreclosure Event

Any of the following:

- Foreclosure per the Security Instrument;
- Fannie Mae's exercise of rights and remedies per the Security Instrument or applicable law (including Insolvency Laws) as holder of the Mortgage Loan and/or the Security Instrument, where Fannie Mae (or its designee or nominee), or a third-party purchaser, becomes the Property owner;
- Borrower delivers Fannie Mae (or its designee or nominee) a deed or other conveyance of 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 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 Mortgage Loan guaranty.

### **Synonyms**

- Guarantors



**Guide** Multifamily Selling and Servicing Guide controlling all Lender and Servicer requirements unless a Lender Contract specifies otherwise.

**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

**HUD** U.S. Department of Housing and Urban Development

**Synonyms**

- HUD's

## I

**Improvements** Buildings, structures, improvements, and alterations, including the multifamily housing dwellings, now or hereafter constructed or placed on the Property, including all fixtures (as defined in the UCC).

**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

Interest rate agreement between the Borrower and a provider for which the Borrower receives payments at the end of each period when the interest rate exceeds the Cap Strike Rate. The Interest Rate Cap provides a ceiling (or cap) on the Borrower's Mortgage Loan interest payments.

### **Synonyms**

- Interest Rate Caps
- Interest Rate Hedge
- Interest Rate Hedges
- Interest Rate Swap
- Interest Rate Cap's

## 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

Person who

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

### **Synonyms**

- Key Principals
- Key Principal's

## **L**

### Lease

Written agreement between an owner and the tenant of a Property stipulating the conditions for possession and use of real estate for a specified period of time and rent.

### **Synonyms**

- Leases





Leasehold	Property held under a long-term lease or Ground Lease.
Lender	Person Fannie Mae approved to sell or service Mortgage Loans.  <b>Synonyms</b> <ul style="list-style-type: none"><li>• Lenders</li><li>• Lender's</li></ul>
Lien	Lien, mortgage, bond interest, pledge, security interest, charge, or encumbrance of any kind.  <b>Synonyms</b> <ul style="list-style-type: none"><li>• Liens</li></ul>
Loan Documents	All Fannie Mae-approved documents evidencing, securing, or guaranteeing the Mortgage Loan.  <b>Synonyms</b> <ul style="list-style-type: none"><li>• Loan Document</li><li>• Mortgage Loan Document</li><li>• Mortgage Loan Documents</li></ul>
Loan Year	Period beginning on the date of the Note and ending on the last day of the month that is 12 full months after the date of the Note, and each successive 12-month period thereafter.  <b>Synonyms</b> <ul style="list-style-type: none"><li>• Loan Years</li></ul>

## M



## MAMP

Multifamily Asset Management Portal used to submit

- Property inspections,
- operating statements,
- requested modifications,
- asset management reports, and
- data corrections for loan or property attributes.

### **Synonyms**

- Multifamily Asset Management Portal
- MAMP's

## Manufactured Housing Community

Residential real estate development with lots on which manufactured homes are located, together with amenities, utility services, landscaping, roads, and other infrastructure.

### **Synonyms**

- Manufactured Housing Property
- MH Community
- MH Community's
- MH Communities
- MHC

## Material Commercial Lease

Lease, sublease, license, concession, grant, or other possessory interest

- for commercial purposes comprising 5% or more of the Property's annual EGI, or
- relating to:
  - solar power, thermal power generation, or co-power generation, or 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
    - a Borrower Affiliate,
    - any Key Principal, or
    - any Principal.

### **Synonyms**

- Material Commercial Leases



**Maturity Date** Date all Mortgage Loan amounts become fully due and payable per the Loan Documents.

**Synonyms**

- Maturity Dates

**MBA** Mortgage Bankers Association

**Synonyms**

- MBA's

**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 Mortgage Loan terms using

- [Form 6001 series](#) Loan Documents, or
- another Fannie Mae-approved form.

### Synonyms

- Multifamily Loan Agreements

## N

## National Flood Insurance Program

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

### Synonyms

- NFIP

## Net Cash Flow

On an annual basis or any specified period, the total Net Operating Income, minus the full amount underwritten for Replacement Reserve expense, regardless of whether deposits will be made (per [Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis](#) and the applicable products and features in [Part III](#)).

### Synonyms

- NCF

## New Construction

Property recently developed/constructed with any certificates of occupancy received within 12 months before the Commitment Date.



**Note** Instrument evidencing a Mortgage Loan obligation, including

- [Form 6010 series](#),
- any other Fannie Mae-approved note, and
- all applicable
  - addenda,
  - schedules, and
  - exhibits.

**Synonyms**

- Notes

## O

**Origination Fee** Fee you charge the Borrower for underwriting and originating the Mortgage Loan.

**Synonyms**

- Origination Fees

## P

**Payment Guaranty** Guaranty executed by a Key Principal on Form 4502 series or [Form 6020 series](#), or approved by Fannie Mae.

**PCA Consultant** Individual or firm conducting a PCA and preparing a PCA Report.

**PCA Report** Property Condition Assessment Report documenting the findings of a PCA.



## Permitted Encumbrances

The following permitted title exceptions:

- lien of current real property taxes, water charges, sewer rents and assessments not yet due and payable;
- covenants, conditions and restrictions, rights of way, easements and other matters of public record acceptable to the Lender and specifically identified in the Title Policy;
- pre-printed exceptions (general and specific) and exclusions set forth in the Title Policy and acceptable to the Lender;
- rights of tenants (as tenants only) under leases (including subleases) pertaining to the Property;
- if the Mortgage Loan is cross-collateralized, the lien of the Mortgage for another Mortgage Loan contained in the same cross-collateralized group; and
- condominium declarations of record acceptable to the Lender and identified in the Title Policy, provided that none of items (a) through (f), individually or in the aggregate, materially interferes with the current marketability or principal use of the Property, the security intended to be provided by the Mortgage, or the current ability of the Property to generate net cash flow sufficient to service the Mortgage Loan or the Borrower's ability to pay its obligations when they become due.

## Person

Legal person, including an

- individual,
- estate,
- trust,
- corporation,
- partnership,
- limited liability company,
- financial institution,
- joint venture,
- association, or
- other organization or entity (whether governmental or private).

### **Synonyms**

- Persons
- Person's



Personal Property	Furniture, fixtures, equipment, and other tangible personal property located on or used in connection with the Property.
PGA	Peak Ground Acceleration as determined by the United States Geological Survey.
Phase I ESA	Environmental Site Assessment conducted per the current ASTM E-1527 standard and the resulting report.  <b>Synonyms</b> <ul style="list-style-type: none"><li>• Phase I Environmental Site Assessment</li><li>• Phase I ESAs</li></ul>
PILOT	Payment In Lieu Of Taxes.  <b>Synonyms</b> <ul style="list-style-type: none"><li>• PILOTs</li></ul>
Prepayment Premium Period End Date	Last date when a Borrower owes a Prepayment Premium for a voluntary Mortgage Loan prepayment.
Pricing and Underwriting Tier	Tier 1, Tier 2, Tier 3, or Tier 4 per the Multifamily Underwriting Standards (Form 4660).  <b>Synonyms</b> <ul style="list-style-type: none"><li>• Tier</li></ul>
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.  <b>Synonyms</b> <ul style="list-style-type: none"><li>• Principals</li></ul>



## Project

Multifamily buildings

- on multiple Properties,
- owned by the same Borrower, and
- that comply with [Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership](#).

### **Synonyms**

- Projects

## Property

Multifamily residential real estate securing the Mortgage Loan, including the

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

### **Synonyms**

- Properties
- Property's

# 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.

### **Synonyms**

- Exit Interest Rate
- Exit Rate





**Rehabilitation Reserve Account** Custodial Account established by the Lender and funded by deposits from the Borrower per the Rehabilitation Reserve Agreement to fund the Rehabilitation Work.

**Rehabilitation Reserve Agreement** Borrower's agreement to undertake identified Rehabilitation Work, the terms for funding the Rehabilitation Work, and the disbursement of funds from the Rehabilitation Reserve Account (e.g., [Form 6222](#) 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 the Borrower funds during the Mortgage Loan term for Replacements.

**Synonyms**

- Replacement Reserves

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

- Borrower's agreement to replace identified capital items and perform required maintenance;
- terms for funding the identified capital item replacement and maintenance; and
- disbursement of Replacement Reserve funds.

**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.

**Synonyms**

- Securities

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

**Synonyms**

- Security Instruments
- Security Instrument's

**Seniors Housing Property** Multifamily residential rental property with any combination of Independent Living, Assisted Living, Alzheimer's/Dementia Care, or Skilled Nursing units.

**Synonyms**

- Seniors Housing

**Servicer** Primary Person servicing the Mortgage Loan, including

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

**Synonyms**

- Servicers
- Servicer's



## Servicing File

Your file for each Mortgage Loan serviced.

### **Synonyms**

- Servicing Files

## Shared Use Documents

Agreements benefiting and/or burdening a Shared Use Property, such as:

- reciprocal easement agreements (REA);
- declaration of covenants;
- conditions and restrictions (CCR);
- development agreements;
- shared use agreements;
- joint ownership agreement or similar agreements governing homeowners' associations (HOAs);
- planned unit developments (PUDs); or
- other common interest arrangements or planned developments.

## Shared Use Property

Property subject to Shared Use Documents:

- benefiting the Property by granting the right to use Essential Elements on common areas created by, or other properties subject to, the Shared Use Documents, and/or
- burdening the Property by:
  - subjecting it to:
    - property-use or other restrictive covenants;
    - fees or assessments; or
    - maintenance obligations; or
  - allowing other parties subject to the Shared Use Documents the right to use the Essential Elements located on the Property.



## Solar Photovoltaic System

A renewable energy system located on the Property that converts sunlight into electricity and/or a battery storage system containing lithium ion batteries or equivalent technology capable of storing electricity received from the electric grid or a renewable energy system and delivering stored electricity to the Property.

### **Synonyms**

- Solar PV System

## 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 202: Appraisal and Valuation](#).



Underwritten  
Capitalization Rate

Ratio, expressed as a percentage, of the

- Underwritten Net Cash Flow, divided by
- Underwriting Value.

Underwritten Net Cash  
Flow

Net Cash Flow as adjusted by the Lender per [Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis](#) and the applicable products and features in [Part III](#).

**Synonyms**

- Underwritten NCF

UPB

Unpaid Principal Balance

**Synonyms**

- UPBs

USPAP

Uniform Standards of Professional Appraisal Practice