## TABLE OF CONTENTS

Part III Products and Features ................................................................. 10

Chapter 1 Student Housing Properties .................................................. 10
  Section 101 Description ................................................................. 10
    101.01 Student Housing Property .............................................. 10
    101.02 Dedicated Student Housing Property ........................... 10
  Section 102 Generally ................................................................. 10
  Section 103 Dedicated Student Housing Property ......................... 11
    103.01 Eligible Property Characteristics .................................. 11
    103.02 Ineligible Property Characteristics ............................. 12
    103.03 Residential Leases ....................................................... 12
    103.04 Properties on College/University Land ......................... 12
    103.05 Additional Underwriting Documentation ....................... 13
  Section 104 Underwritten NCF ..................................................... 13
  Section 105 Replacement Reserve ................................................ 19
    105.01 Determining Replacement Reserve ............................... 20
    105.02 Replacement Reserve Funding ...................................... 20

Chapter 2 Military Housing Properties ............................................... 21
  Section 201 Description .............................................................. 21
  Section 202 Ineligible Property Types ....................................... 21
  Section 203 Generally ............................................................... 21

Chapter 3 Moderate Rehabilitation Mortgage Loans ............................. 22
  Section 301 Description .............................................................. 22
  Section 302 Underwriting ............................................................ 23
  Section 303 Rehabilitation Work Costing More than $20,000 Per Unit 24
    303.01 Rehabilitation Work Evaluation Report ....................... 24
    303.02 Rehabilitation Reserve Agreement ............................. 25
  Section 304 Supplemental Mortgage Loans .................................. 25

Chapter 4 Green Mortgage Loans ....................................................... 27
  Section 401 Generally ............................................................... 27
    401.01 Description ............................................................... 27
    401.02 High Performance Building Module ............................. 27
    401.03 Technical Solar Report ................................................ 28
    401.04 Green MBS ............................................................... 29
    401.05 Committing and Delivery ............................................. 29
  Section 402 Green Building Certification ...................................... 29
  Section 403 Green Rewards Mortgage Loans .................................. 29
    403.01 Eligibility ................................................................. 29
    403.01A Generally ............................................................... 29
    403.01B HPB Module, HPB Report, and Technical Solar Report Scoring .... 30
    403.01C HPB Module, HPB Report, and Technical Solar Report Approval ................................................. 30
    403.01D Non-Contiguous Parcels .......................................... 31
    403.02 Implementing Efficiency Measures ............................... 31
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>403.02A</td>
<td>Generally</td>
<td>31</td>
</tr>
<tr>
<td>403.02B</td>
<td>Solar PV System</td>
<td>32</td>
</tr>
<tr>
<td>403.03</td>
<td>Underwritten NCF</td>
<td>33</td>
</tr>
<tr>
<td>403.04</td>
<td>Maximum Amount</td>
<td>34</td>
</tr>
<tr>
<td>403.05</td>
<td>Supplemental Mortgage Loans</td>
<td>34</td>
</tr>
<tr>
<td>404</td>
<td>Section 404 Annual Energy Reporting</td>
<td>34</td>
</tr>
<tr>
<td>501</td>
<td>Chapter 5 Seniors Housing Properties</td>
<td>36</td>
</tr>
<tr>
<td>501.01</td>
<td>Generally</td>
<td>36</td>
</tr>
<tr>
<td>501.02</td>
<td>Description</td>
<td>36</td>
</tr>
<tr>
<td>501.03</td>
<td>Eligible Lenders</td>
<td>36</td>
</tr>
<tr>
<td>502</td>
<td>Section 502 Eligible Properties</td>
<td>36</td>
</tr>
<tr>
<td>502.01</td>
<td>Eligible Properties</td>
<td>36</td>
</tr>
<tr>
<td>502.02</td>
<td>Ineligible Properties</td>
<td>37</td>
</tr>
<tr>
<td>503</td>
<td>Section 503 Continuing Care Retirement Communities (CCRCs)</td>
<td>37</td>
</tr>
<tr>
<td>504</td>
<td>Section 504 Seniors Housing Property Income</td>
<td>38</td>
</tr>
<tr>
<td>504.01</td>
<td>Generally</td>
<td>38</td>
</tr>
<tr>
<td>504.02</td>
<td>Underwritten NCF</td>
<td>44</td>
</tr>
<tr>
<td>504.03</td>
<td>Operating Lease Ratios</td>
<td>45</td>
</tr>
<tr>
<td>504.04</td>
<td>Operating Lease Analysis</td>
<td>46</td>
</tr>
<tr>
<td>505</td>
<td>Section 505 Replacement Reserve</td>
<td>46</td>
</tr>
<tr>
<td>506</td>
<td>Section 506 Medicaid Funds</td>
<td>47</td>
</tr>
<tr>
<td>506.01</td>
<td>Dependency and Medicaid Transition Reserve</td>
<td>47</td>
</tr>
<tr>
<td>506.02</td>
<td>State Medicaid</td>
<td>48</td>
</tr>
<tr>
<td>507</td>
<td>Section 507 Consultant Reports</td>
<td>48</td>
</tr>
<tr>
<td>507.01</td>
<td>Management, Operations, and Regulatory Compliance</td>
<td>48</td>
</tr>
<tr>
<td>507.02</td>
<td>Management and Operations Reports</td>
<td>48</td>
</tr>
<tr>
<td>507.03</td>
<td>Regulatory Compliance Report</td>
<td>49</td>
</tr>
<tr>
<td>508</td>
<td>Chapter 6 Manufactured Housing Communities</td>
<td>51</td>
</tr>
<tr>
<td>601</td>
<td>Section 601 Description</td>
<td>51</td>
</tr>
<tr>
<td>602</td>
<td>Section 602 Lender Eligibility</td>
<td>51</td>
</tr>
<tr>
<td>603</td>
<td>Section 603 Legal and Property Compliance</td>
<td>51</td>
</tr>
<tr>
<td>603.01</td>
<td>Borrower and the MH Community</td>
<td>51</td>
</tr>
<tr>
<td>603.01A</td>
<td>Borrower Ownership</td>
<td>51</td>
</tr>
<tr>
<td>603.01B</td>
<td>Collateral; Tenant-Occupied and Affiliate-Owned Homes</td>
<td>52</td>
</tr>
<tr>
<td>603.01C</td>
<td>MH Community</td>
<td>53</td>
</tr>
<tr>
<td>603.02</td>
<td>MH Community Score</td>
<td>54</td>
</tr>
<tr>
<td>603.03</td>
<td>Code Standards</td>
<td>58</td>
</tr>
<tr>
<td>603.04</td>
<td>Flood Zone</td>
<td>58</td>
</tr>
<tr>
<td>603.04A</td>
<td>Rising Water</td>
<td>58</td>
</tr>
<tr>
<td>603.04B</td>
<td>Moving Water</td>
<td>59</td>
</tr>
<tr>
<td>603.05</td>
<td>Lease Terms</td>
<td>59</td>
</tr>
<tr>
<td>603.05A</td>
<td>Master Leases</td>
<td>59</td>
</tr>
<tr>
<td>603.05B</td>
<td>MH Site Leases</td>
<td>59</td>
</tr>
<tr>
<td>603.05C</td>
<td>Loan Document Modification</td>
<td>61</td>
</tr>
<tr>
<td>604</td>
<td>Section 604 Property Insurance</td>
<td>62</td>
</tr>
</tbody>
</table>
Section 605 Survey ........................................................................................................ 62
  605.01 Public Roadways, Private Interior Roadways, and Drives ............................... 62
  605.02 Setbacks ........................................................................................................ 62
  605.03 Encroachments .............................................................................................. 63
Section 606 Property Income and Underwritten NCF .................................................. 63
Section 607 Replacement Reserve ............................................................................... 69
Chapter 7 Multifamily Affordable Housing Properties ............................................... 70
Section 701 Generally .................................................................................................. 70
  701.01 Description ..................................................................................................... 70
  701.02 Eligible Lenders .............................................................................................. 70
Section 702 MAH Property Eligibility ......................................................................... 70
  702.01 Eligible Characteristics and Underwriting .................................................... 70
  702.02 Ineligible Characteristics and Underwriting ............................................... 72
Section 703 Property Income and Underwriting ........................................................ 73
  703.01 Underwritten NCF ........................................................................................ 73
  703.02 Underwriting ................................................................................................. 80
    703.02A Not-for-Profit (IRC §501[c][3]) Borrower may be a Multi-Asset Borrower .................................................................................................................. 80
    703.02B Appraised Value and Underwriting Value .................................................... 80
    703.02C Market Study .............................................................................................. 81
    703.02D Affordable Regulatory Agreement Restrictions ......................................... 82
    703.02E 35-Year Amortization ................................................................................. 82
    703.02F LIHTC Income Averaging ......................................................................... 83
    703.02G Initial LIHTC Equity ................................................................................ 83
    703.02H Developer Fees ......................................................................................... 84
    703.02I Rent-Stabilized Units ................................................................................ 84
Section 704 Subordinate Financing ............................................................................. 84
  704.01 Interest Rate and Payments .......................................................................... 84
  704.02 Loan Term ....................................................................................................... 84
  704.03 Collateral ......................................................................................................... 85
  704.04 Credit Support ................................................................................................ 85
  704.05 Soft Financing ................................................................................................ 85
  704.06 Subordinate Lender ......................................................................................... 87
  704.07 Developer's Notes .......................................................................................... 87
  704.08 Subordination Agreement .............................................................................. 87
  704.09 Lien Priority and Title Insurance Policy ......................................................... 88
  704.10 Form of Subordinate Loan Documents ......................................................... 88
  704.11 Prepayment .................................................................................................... 88
  704.12 LIHTC Equity Bridge Loans .......................................................................... 88
Section 705 Restrictive Covenants and Affordable Regulatory Agreements ............... 90
Section 706 ROAR Loan ............................................................................................... 91
  706.01 Generally ....................................................................................................... 91
  706.02 Timing ............................................................................................................ 91
  706.03 General Underwriting ................................................................................. 91
  706.04 Additional Underwriting and Loan Documents .......................................... 92
Section 707 HAP Contract Properties ......................................................................... 93
<table>
<thead>
<tr>
<th>Section Number</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>905.02</td>
<td>Underwritten DSCR</td>
<td>120</td>
</tr>
<tr>
<td>906.00</td>
<td>Property Management</td>
<td>121</td>
</tr>
<tr>
<td>907.00</td>
<td>Property Condition</td>
<td>122</td>
</tr>
<tr>
<td>907.01</td>
<td>Site Inspection by Lender or Other Third Party</td>
<td>122</td>
</tr>
<tr>
<td>907.02</td>
<td>Site Inspection by Borrower</td>
<td>123</td>
</tr>
<tr>
<td>907.03</td>
<td>PCA</td>
<td>124</td>
</tr>
<tr>
<td>908.00</td>
<td>Replacement Reserve</td>
<td>124</td>
</tr>
<tr>
<td>909.00</td>
<td>Environmental Matters and Inspections</td>
<td>125</td>
</tr>
<tr>
<td>910.00</td>
<td>Borrower, Key Principals, Guarantors, and Principals</td>
<td>126</td>
</tr>
<tr>
<td>910.01</td>
<td>Borrower Organizational Structure</td>
<td>126</td>
</tr>
<tr>
<td>910.02</td>
<td>Co-Tenant Borrowers</td>
<td>126</td>
</tr>
<tr>
<td>910.03</td>
<td>Key Principals</td>
<td>127</td>
</tr>
<tr>
<td>910.04</td>
<td>Principals</td>
<td>127</td>
</tr>
<tr>
<td>910.05</td>
<td>Financial Statements</td>
<td>127</td>
</tr>
<tr>
<td>910.06</td>
<td>Net Worth and Liquid Assets</td>
<td>127</td>
</tr>
<tr>
<td>911.00</td>
<td>Credit Reports</td>
<td>128</td>
</tr>
<tr>
<td>911.01</td>
<td>Credit Report</td>
<td>128</td>
</tr>
<tr>
<td>911.02</td>
<td>FICO Scoring</td>
<td>129</td>
</tr>
<tr>
<td>911.03</td>
<td>Reviewing the Credit Report</td>
<td>129</td>
</tr>
<tr>
<td>912.00</td>
<td>Description of Chapter 10 Healthy Housing Rewards</td>
<td>131</td>
</tr>
<tr>
<td>912.01</td>
<td>Healthy Housing Rewards</td>
<td>131</td>
</tr>
<tr>
<td>912.02</td>
<td>Healthy Design</td>
<td>131</td>
</tr>
<tr>
<td>912.03</td>
<td>Enhanced Resident Services</td>
<td>132</td>
</tr>
<tr>
<td>913.00</td>
<td>Adjustable Rate Mortgage (ARM) Loans</td>
<td>136</td>
</tr>
<tr>
<td>913.01</td>
<td>Description</td>
<td>136</td>
</tr>
<tr>
<td>913.02</td>
<td>Underwriting</td>
<td>138</td>
</tr>
<tr>
<td>913.03</td>
<td>Prepayment Terms</td>
<td>139</td>
</tr>
<tr>
<td>913.03.01</td>
<td>Generally</td>
<td>139</td>
</tr>
<tr>
<td>913.03.02</td>
<td>1% Prepayment Premium Schedule</td>
<td>139</td>
</tr>
<tr>
<td>914.00</td>
<td>ARM 5/5 Loan Optional 5-Year Adjustable Rate Term Renewal</td>
<td>140</td>
</tr>
<tr>
<td>915.00</td>
<td>Eligibility</td>
<td>140</td>
</tr>
<tr>
<td>916.00</td>
<td>Structured Adjustable Rate Mortgage (SARM) Loans</td>
<td>142</td>
</tr>
<tr>
<td>916.01</td>
<td>Description</td>
<td>142</td>
</tr>
<tr>
<td>916.02</td>
<td>Underwriting</td>
<td>143</td>
</tr>
<tr>
<td>916.03</td>
<td>Actual Amortization Calculation</td>
<td>145</td>
</tr>
<tr>
<td>916.04</td>
<td>Prepayment Terms</td>
<td>147</td>
</tr>
<tr>
<td>916.04.01</td>
<td>Generally</td>
<td>147</td>
</tr>
<tr>
<td>916.04.02</td>
<td>Prepayment Option 1 – Declining Prepayment Premium Schedule</td>
<td>148</td>
</tr>
<tr>
<td>916.04.03</td>
<td>Prepayment Option 2 - 1% Prepayment Premium Schedule</td>
<td>149</td>
</tr>
<tr>
<td>917.00</td>
<td>Interest Rate Caps</td>
<td>149</td>
</tr>
<tr>
<td>917.01</td>
<td>Replacement Interest Rate Cap</td>
<td>151</td>
</tr>
<tr>
<td>917.02</td>
<td>Determining the Cap Strike Rate</td>
<td>151</td>
</tr>
<tr>
<td>917.03</td>
<td>Including the Cap Cost Factor in the Variable Underwriting Rate</td>
<td>152</td>
</tr>
<tr>
<td>917.04</td>
<td>Establishing Interest Rate Cap Reserves</td>
<td>153</td>
</tr>
<tr>
<td>917.05</td>
<td>Interest Rate Cap Contract Documentation and Delivery</td>
<td>153</td>
</tr>
<tr>
<td>918.00</td>
<td>Hybrid Adjustable Rate Mortgage (Hybrid ARM) Loans</td>
<td>155</td>
</tr>
</tbody>
</table>
Chapter 16 Mezzanine Financing and Preferred Equity

Section 1602 Preferred Equity

Section 1601 Mezzanine Financing

Chapter 15 Split Mortgage Loans and Bifurcated Mortgage Loans

Section 1502 Characteristics

Chapter 14 Supplemental Mortgage Loans

Section 1402 Supplemental Mortgage Loans

Section 1401 Description

Section 1304 Monthly Principal and Interest Payments

Section 1303 Prepayment Terms

Section 1302 Interest Rate Conversion Date

Section 1301 Description

Section 1204 Lender’s Loan Application

Section 1203 Servicing

Section 1202 Underwriting

Chapter 13 Supplemental Mortgage Loans

Section 1304 Monthly Principal and Interest Payments

Section 1303 Prepayment Terms

Section 1302 Interest Rate Conversion Date

Section 1301 Description

Section 1204 Lender’s Loan Application

Section 1203 Servicing

Section 1202 Underwriting
Part III  Products and Features
Chapter 1  Student Housing Properties
Section 101  Description

101.01  Student Housing Property

**Requirements**

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

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

101.02  Dedicated Student Housing Property

**Requirements**

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

**Guidance**

A Dedicated Student Housing Property typically:

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

Section 102  Generally

**Guidance**

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

- What percentage of units are leased to graduate students versus undergraduate students?
- Has the ratio of student to non-student tenants changed over the past
several years?

- Is the Property marketable to non-student tenants, given the size, mix, and quality of the units?
- What is the rent structure? For example, are rents charged on a by unit basis or by bed basis?
- Who are the parties to the lease agreements? For example, are they typically signed by 1 tenant or all tenants, and/or co-signed by parents?
- What is the typical lease term?
- What is the enrollment outlook at the college/university?
- What is the student composition (i.e., full-time versus part-time) at the college/university?
- What are the current and forecasted supply and demand for student housing at the college/university? Will there be any college/university-sponsored construction?
- What is the Key Principal's experience with operating Student Housing Properties and Dedicated Student Housing Properties?
- What is the Property’s proximity to campus? Can students walk to class and other campus locations?
- Is the Property conveniently located to a college/university-sponsored transportation line?
- Is the Property subject to a Ground Lease? If so, what are the structure and terms of the Ground Lease?

Requirements

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

Section 103 Dedicated Student Housing Property

103.01 Eligible Property Characteristics

Requirements

You must ensure that a Dedicated Student Housing Property:

- caters to a campus with at least 10,000 students, the majority of whom are full-time students;
- is
  - located within 2 miles of a campus boundary line, as determined by the local municipality, or
- near a college/university-sponsored transportation line; and
- has operated for at least 1 full school year (i.e., August/September through April/May).

Guidance

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

### 103.02 Ineligible Property Characteristics

**Requirements**

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

### 103.03 Residential Leases

**Requirements**

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

Guidance

Each student lease agreement should have

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

### 103.04 Properties on College/University Land

**Requirements**

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

- the Borrower has control over all economic decisions affecting the Property (such as financing, leasing, and management);
- the Key Principal
  - has at least 5 years of operating experience with Dedicated Student
Housing, and
- operates at least 1 other Dedicated Student Housing Property located on college/university land; and
- any Ground Lease complies with Part II, Chapter 1: Attributes and Characteristics, Section 104: Ground Leased Properties.

### 103.05 Additional Underwriting Documentation

#### Requirements

Your underwriting must include the following:

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

### Section 104 Underwritten NCF

#### Requirements

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

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

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

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>CALCULATION OF NET RENTAL INCOME</strong></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td></td>
<td><strong>GROSS RENTAL INCOME (GRI)</strong> market rents for vacant units based on a current rent roll (multiplied by 12), plus:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- for a Student Housing Property the lower of</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- actual rents in place for occupied units on a per unit basis, or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- market rents that would be available if the Property was not leased to students; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- for a Dedicated Student Housing Property the lower of</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- actual rents in place for occupied units on a per unit or by the bed basis, or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- market rents for comparable Dedicated Student Housing Properties.</td>
</tr>
<tr>
<td>2</td>
<td><strong>PLUS</strong></td>
<td>To the extent deducted as an operating expense, rents for other non-revenue units (e.g., model units deducted in the model apartment operating expense in the general and administrative category, or actual rent from employee units deducted in the employee operating expense in the payroll and benefits category).</td>
</tr>
<tr>
<td></td>
<td><strong>EQUALS</strong></td>
<td><strong>GROSS POTENTIAL RENT (GPR)</strong></td>
</tr>
</tbody>
</table>
### REQUIRED UNDERWRITTEN NCF
(STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)

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

#### CALCULATION OF OTHER INCOME

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

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

If trailing 12-month NRI is not available, use a minimum 10% of GPR.
### REQUIRED UNDERWRITTEN NCF
(STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 7    | PLUS     | Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must:  
- be stable;  
- be common in the market;  
- exclude one-time extraordinary non-recurring items; and  
- be supported by prior years.  
You must assess the individual monthly other income within the prior full year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized).  
If there are fluctuations, you may use other income that exceeds the trailing 3-month other income (annualized), as long as it does not exceed the highest 1-month other income used in the trailing 3-month other income calculation. |
| 8    | PLUS     | Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable). |
| 9    | MINUS    | 10% of the actual commercial income.² |

² If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.

| 10   | PLUS     | Premiums³, provided that the income must:  
- be stable or increasing;  
- be typical (in type and amount) in the market;  
- be supported by prior years; and  
- not exceed the income generated over the most recent year or trailing 12-month period. |
### Required Underwritten NCF (Student or Dedicated Student Housing Property)

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

**Equals**

**Effective Gross Income (EGI)**

3 Premium or corporate premium income cannot exceed 3% of GRI.

### Calculation of Operating Expenses
# REQUIRED UNDERWRITTEN NCF

## (STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 13   | MINUS    | Line-by-line stabilized operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a lease-up, rehabilitation, or other short-term positive or negative factors. Non-recurring, extraordinary operating expenses must not be included. You must assess:  
• past operating history;  
• the appraisers expense analysis;  
• all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and  
• the Borrowers budget (in the case of an acquisition).  
You must analyze historical operations at the Property and apply an appropriate increase over the prior years operations in determining an estimate. |
| 14   | MINUS    | Property management fee equal to the greatest of:  
• 4% of EGI;  
• actual property management fee (exclude any portion of a non-arms length property management fee that is subordinated to the Mortgage Loan); or  
• market property management fee. |
### REQUIRED UNDERWRITTEN NCF
(StudenT Or Dedicated Student Housing Property)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 15   | MINUS    | Real estate taxes based on the greatest of:  
|      |          | • actual future tax bill(s) covering a full calendar year;  
|      |          | • prior full years taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or  
|      |          | • in California, the greater of the Mortgage Loan amount or assessed value, multiplied by the millage rate, plus any special assessments.  
|      |          | You must consider any automatic tax reassessment upon acquisition in the next 12-month period. |
| 16   | MINUS    | Insurance equal to:  
|      |          | • the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or  
|      |          | • 110% of the current expense, for insurance policies with a remaining term less than 6 months. |
| 17   | MINUS    | Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis. |
|      | EQUALS   | UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI) |
| 18   | MINUS    | Replacement Reserve expense per Part III, Chapter 1: Student Housing Properties, Section 105: Replacement Reserve. |
|      | EQUALS   | UNDERWRITTEN NCF |
Section 105  Replacement Reserve

105.01  Determining Replacement Reserve

☑ Requirements

The minimum Replacement Reserve amount must equal the greater of:

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

105.02  Replacement Reserve Funding

☑ Requirements

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

Section 201  Description

☑ Requirements

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

Section 202  Ineligible Property Types

☑ Requirements

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

Section 203  Generally

➡ Guidance

When underwriting a Military Housing Property, you should consider:

- the stability of nearby bases, including deployment/base closing risks;
- historical performance of the Property during a deployment;
- any impact of military housing plans; and
- ability of the Property to be re-tenanted if the base closes.
A Moderate Rehabilitation Mortgage Loan is secured by a Property that will undergo at least $8,000 per unit of Rehabilitation Work. This Chapter does not apply to Properties with a lesser amount of rehabilitation work.

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

**Completion/Repair Escrows**
For Completion/Repairs identified in a PCA, if you require full or partial funding of a Completion/Repair Escrow, any higher funding amount you require above the estimated cost of Completion/Repairs must be funded.

**Mezzanine Financing**
If the Rehabilitation Work is funded through Mezzanine Financing, you must also comply with Part III, Chapter 16: Mezzanine Financing and Preferred Equity.

### Section 302 Underwriting

#### Requirements

**For all Moderate Rehabilitation Mortgage Loans...**

**Rent or Income Restrictions**
For Multifamily Affordable Housing Properties, you must ensure that the rents expected to be charged after Rehabilitation Work is completed are consistent with any rent or income restrictions.

**Tenants, Guests, and Employees**
You must identify and mitigate any risks that the Rehabilitation Work may have during the renovation period on
- the health and safety of tenants, guests, or employees at any time, and
- tenant displacement, and consider a relocation plan to minimize the effects of the displacement.

#### Guidance

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

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

- Given the scope of work, is a Completion/Repair Agreement or Rehabilitation Reserve Agreement (Form 6222.Mod), including a fully-funded Completion/Repair Escrow or Rehabilitation Reserve Account, appropriate?
- Is the Sponsor's net worth and liquidity adequate to fund any unexpected cost overruns or operating deficits?
- Does the Sponsor have demonstrated experience with the scope of work in the same or similar real estate markets?
- Does the Borrower have sufficient economic incentive to complete the entire scope of work, including the feasibility of achieving projected post-rehabilitation rents sufficient to meet the target effective gross income?
- Should a Key Principal execute a Completion Guaranty (Form 6018) that covers a portion or the entire scope of the Rehabilitation Work?
- Should additional collateral (e.g., deposits into the Rehabilitation Reserve Account that are greater than the budget for the Rehabilitation Work, operating deficit reserve, Letter of Credit, etc.) be required?

### Section 303

**Rehabilitation Work Costing More than $20,000 Per Unit**

#### 303.01 Rehabilitation Work Evaluation Report

- **Requirements**

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

  This rehabilitation work evaluation report must include:

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

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

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

- Will the work comply with all zoning, building, and fire code regulations?
- Is there any additional work that is not already planned but that should be undertaken?

### 303.02 Rehabilitation Reserve Agreement

**Requirements**

You must ensure that the Borrower:

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

- Completes a budget for the planned Rehabilitation Work.

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

### Section 304 Supplemental Mortgage Loans

**Requirements**

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

Section 401  Generally

401.01  Description

Requirements

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

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

Guidance

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

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

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

Operating Procedures

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

### 401.03 Technical Solar Report

**Requirements**

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

**Guidance**

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

**Operating Procedure**

You must ensure:

1. The HPB Consultant completes the HPB Module.
2. The Solar Technical Consultant completes a Technical Solar Report, including Form 4099.I, that
   - identifies and quantifies the renewable energy generation potential at the Property, and
   - details the system design specifications of any recommended Solar PV System.
3. If the Technical Solar Report confirms the Property is suitable for a Solar PV System, and the Borrower elects to install a Solar PV System at the Property as an Efficiency Measure, the HPB Consultant incorporates the Solar PV System design specifications, and any required roof replacement or additional structural support, from the Technical Solar Assessment (Form 4099.I) into Form 4099.H.
4. For reimbursement, you submit the Technical Solar Report invoice per the Green Mortgage Loan Job Aid.
401.04 Green MBS

**Requirements**

You must disclose as a Green MBS any Green Mortgage Loan that you deliver as an MBS Mortgage Loan.

401.05 Committing and Delivery

**Operating Procedures**

To commit and deliver a Green Mortgage Loan, you must follow the Green Mortgage Loan Job Aid.

Section 402 Green Building Certification

**Requirements**

To qualify as a Green Mortgage Loan, you must:

- ensure the Property has a Green Building Certification that complies with Green Building Certifications (Form 4250); and
- review and approve a Green Building Certification prior to
  - Rate Lock, if you are not using the Streamlined Rate Lock option, or
  - the Mortgage Loan Origination Date, if you are using the Streamlined Rate Lock option.

Section 403 Green Rewards Mortgage Loans

403.01 Eligibility

403.01A Generally

**Requirements**

For a Green Rewards Mortgage Loan Property to be eligible, you must ensure:

- the Property has at least 12 months of Stabilized Residential Occupancy;
- the Borrower selects Efficiency Measures from the HPB Module or HPB Report projected to result in an annual reduction for the whole Property of at least 30% in combined energy and/or water consumption of which at
least 15% must be attributable to savings in energy consumption; and

■ for a Manufactured Housing Community,
  ■ the 15% energy consumption savings is achieved only through the installation of a Solar PV System or other renewable energy system,
  ■ all Efficiency Measures, including the Solar PV System, are made only to Borrower-owned property,
  ■ electricity is metered at the whole Property level (master-metered) by the utility to the Property owner (even if reimbursed by the tenants), and
  ■ the energy or water consumption reduction is based only on utilities that are metered at the whole Property level (master-metered).

Energy consumption savings may represent reductions in whole-Property consumption of energy supplied by utilities or energy suppliers (including delivered energy such as fuel oil or propane) compared to the previous 12-month baseline through a combination of the installation of an onsite renewable energy system and energy efficiency measures.

**403.01B HPB Module, HPB Report, and Technical Solar Report Scoring**

**Requirements**

You must score each HPB Module, HPB Report, and Technical Solar Report per the following 3-point system:

<table>
<thead>
<tr>
<th>Score</th>
<th>Quality of HPB Module, HPB Report, and Technical Solar Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Either you or Fannie Mae may approve as is. No further corrections.</td>
</tr>
<tr>
<td>2</td>
<td>The consultant must address minor issues or clarify content before you or Fannie Mae approve it. Minor corrections.</td>
</tr>
<tr>
<td>3</td>
<td>The consultant must make major changes or multiple revisions before you or Fannie Mae approve it. Substantial issues.</td>
</tr>
</tbody>
</table>

The final HPB Module, HPB Report, and Technical Solar Report must be scored as a "1" before you approve the report or submit it to Fannie Mae for approval, if required.

**403.01C HPB Module, HPB Report, and Technical Solar Report Approval**
Requirements

You must submit an HPB Report or HPB Module to Fannie Mae for approval if:

- you have delivered less than 8 Mortgage Loans that included an HPB Report (or a PCA Report containing an HPB Module); or
- your HPB Consultant has not been designated as “Pre-Qualified” by Fannie Mae at www.fanniemaegreenfinancing.com.

Before Rate Lock, you must submit any Technical Solar Report to Fannie Mae for approval.

Operating Procedures

If Fannie Mae’s approval of an HPB Module, HPB Report, or Technical Solar Report is required, you must:

- Submit in DUS Gateway, per the Green Mortgage Loan Job Aid, the HPB Module or HPB Report and Form 4099.H, or Technical Solar Report and Form 4099.I.

- Follow this submission timing:
  - For the HPB Module or HPB Report, at least 5 days before Rate Lock, if not using the Streamlined Rate Lock option, or at least 10 days before the Mortgage Loan Origination Date, if using the Streamlined Rate Lock option.
  - For the Technical Solar Report, at least 10 days before Rate Lock.

403.01D Non-Contiguous Parcels

Requirements

For a Mortgage Loan secured by Non-Contiguous Parcels, a separate HPB Module, HPB Report, or Technical Solar Report is required for each Collateral Record in C&D.

403.02 Implementing Efficiency Measures

403.02A Generally

Requirements
After the Borrower selects the Efficiency Measures, you must:

- Include the selected Efficiency Measures on the Addendum to Schedule 6 to the applicable Modifications to Multifamily Loan and Security Agreement (Green Mortgage Loan) (Form 6241), or Modifications to Multifamily Loan and Security Agreement (Green/Solar Mortgage Loan) (Form 6264).

- Add the Addendum to Schedule 6 to the applicable Completion/Repair Agreement or the Rehabilitation Work Schedule to the Rehabilitation Reserve Agreement.

- Describe each Efficiency Measure in enough detail to ensure that any specific products or equipment are installed, including quantities and applicable performance specifications.

- Ensure funds to complete the selected Efficiency Measures are deposited into the Completion/Repair Escrow or the Rehabilitation Reserve Account, in an amount equal to 125% of the estimated cost of all capital improvements identified by the HPB Module, HPB Report, or Technical Solar Report for the selected Efficiency Measures.

- Require all Efficiency Measures be completed in a timely manner and no later than
  - 12 months after the Mortgage Loan Origination Date, or
  - any shorter time period required by Part II, Chapter 4: Inspections and Reserves, Section 402: Property Condition Assessment (PCA) for capital improvements identified as Immediate Repairs by the PCA.

**403.02B Solar PV System**

**☑ Requirements**

For a Green Rewards Mortgage Loan, if the Borrower elects to install a Solar PV System as an Efficiency Measure, you must ensure:

- All Solar PV System equipment, including energy storage, will be Borrower-owned and located on the Property.

- The Property will remain connected to the utility grid.

- The Borrower enters into an Operations and Maintenance Plan covering the Mortgage Loan term.

- The Solar PV System has a minimum manufacturer performance warranty of 25-years for the solar panels, and a minimum 10-year product warranty for:
- solar panels;
- inverters;
- racking systems; and
- batteries for energy storage.

- Roof age and condition support Solar PV System design and installation, and any roof replacement specified in the Technical Solar Report is included as an Efficiency Measure.
- A performance guaranty that covers the full term of the Mortgage Loan is required for systems over 500kW;
- Battery storage is for on-site use only and does not commit the Property to an arrangement with any utility, third-party, or off-site use.
- Outside counsel with Solar PV System experience and state-specific knowledge reviews all applicable local laws and any contracts or agreements related to the Solar PV System installation and operation.
- The Solar PV System installer has a team member or subcontractor who is NABCEP certified.

### 403.03 Underwritten NCF

**Requirements**

You must ensure that the Underwritten NCF for a Green Rewards Mortgage Loan is calculated per Part II, Chapter 2: Valuation and Income or the applicable Part III Chapter.

For any Green Rewards Mortgage Loan where the Borrower elects to install a Solar PV System as an Efficiency Measure, the Underwritten NCF must include all new or increased operating expenses associated with the Solar PV System, such as:

- Operations and Maintenance Plan fees;
- real estate taxes;
- property and liability insurance;
- utility fees; and
- replacement reserves.

**Guidance**

You may include projected energy and water cost savings from implementing selected Efficiency Measures when calculating Underwritten NCF, up to:
75% of any cost savings projected to accrue to the Borrower; plus
25% of any cost savings projected to accrue to the tenants, but only if the projections are based on whole-Property or sampled (not modeled) consumption as defined by Form 4099.

403.04 Maximum Amount

Requirements

The maximum amount of a Green Rewards Mortgage Loan that includes projected cost savings in the Underwritten NCF must not exceed 105% of the Mortgage Loan amount based on the Underwritten NCF excluding the projected cost savings.

403.05 Supplemental Mortgage Loans

Requirements

You must base the maximum Green Rewards Supplemental Mortgage Loan amount on the aggregate UPB of all Pre-Existing Mortgage Loans secured by the Property, plus the amount of the Green Rewards Supplemental Mortgage Loan.

Guidance

Certain Green Rewards Supplemental Mortgage Loans may not count toward the limit on the number of Supplemental Mortgage Loans (see Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402: Supplemental Mortgage Loans).

Section 404 Annual Energy Reporting

Requirements

You must use the following forms requiring the Borrower to report the Property’s annual energy and water use:

- for a Green Rewards Mortgage Loan where the Borrower elects to install a Solar PV System, Modifications to Multifamily Loan and Security Agreement (Green/Solar Mortgage Loan) (Form 6264);
- for any other Green Rewards Mortgage Loan, Modifications to Multifamily Loan and Security Agreement (Green Mortgage Loan) (Form 6241); or
- for any Green Mortgage Loan Property with a Green Building Certification, Modifications to Multifamily Loan and Security Agreement (Green Building...
For all Green Mortgage Loans, you must ensure the Borrower has enrolled with Fannie Mae's Green Measurement and Verification Consultant within 60 days after the Mortgage Loan Origination Date.
Chapter 5  Seniors Housing Properties

Section 501  Generally

501.01  Description

Requirements

A Seniors Housing Property is a multifamily residential rental property with Independent Living, Assisted Living, Alzheimer’s/Dementia Care, or Skilled Nursing units.

501.02  Eligible Lenders

Requirements

You must be approved in writing to Deliver Seniors Housing Mortgage Loans.

501.03  Key Principal/Sponsor Experience

Requirements

You must ensure that the Key Principal or Sponsor has owned or operated Seniors Housing Properties of commensurate type, size, and service level as the Property.

Section 502  Eligible Properties

502.01  Eligible Properties

Requirements

You must ensure that a Seniors Housing Property has the following design features:

- convenience features for the elderly in all units, such as grab bars in the bathrooms and emergency pull-cords or equivalent safety items;
- a fully operational sprinkler system throughout each level of each building (including all units and common areas), regardless of local building code or other governmental requirements;
- a commercial kitchen for preparing meals for residents;
- kitchens or kitchenettes containing a refrigerator, microwave or comparable cooking element, and sink in each Independent Living unit, and also in, each Assisted Living unit if consistent with the market; and
bathrooms in each Independent Living and Assisted Living unit.

### 502.02 Ineligible Properties

#### Requirements

Fannie Mae will not purchase any Mortgage Loan secured by a Seniors Housing Property:

- comprised of only Skilled Nursing units;
- that does not meet the Skilled Nursing NCF Test per Part III, Chapter 5: Seniors Housing Properties, Section 504.02: Skilled Nursing NCF Test; or
- if the original Seniors Housing Mortgage Loan UPB exceeds 100% of the portion of the Appraised Value
  - attributed to land and all Improvements, but
  - excluding any portion attributed to goodwill, business value, intangibles, and/or furniture, fixtures, and equipment.

### Section 503 Continuing Care Retirement Communities (CCRCs)

#### Requirements

You must ensure that a CCRC has:

- had at least 90% physical occupancy for each of the past 5 fiscal years;
- debt service reserves equal to at least 1 year of P&I; and
- a DSCR of at least 1.00 based on annualized rent collections and operating expenses, excluding net entrance fees.

For any CCRC with an entrance fee, your underwriting must include a summary and analysis of the following:

- actuarial report (including a copy of the report);
- range and weighted average of entrance fees offered at the Property, which must be within the range of median home values in the local market;
- entrance fee refund plans (for example, full, partial, declining, non-refundable);
- required entrance fee reserve;
- whether the entrance fee reserve can be assigned as collateral for the Mortgage Loan;
- net entrance fee income (collections minus refunds) for the past 5 years;
- sufficiency of the entrance fee reserve;
- market analysis of entrance fees;
- underwritten net entrance fee income;
- historical annual resident turnover;
- required operating reserves;
- whether the operating reserves can be assigned as collateral for the Mortgage Loan;
- identity of all governmental authorities that license the Property and Seniors Housing Operator; and
- status of each required license.

## Section 504  Seniors Housing Property Income

### 504.01 Underwritten NCF

#### Requirements

You must use the following table to calculate Underwritten NCF for Seniors Housing Properties.

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CALCULATION OF NET RENTAL INCOME</td>
<td>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).</td>
</tr>
<tr>
<td>2</td>
<td>PLUS</td>
<td>Medicaid income (does not include Medicare, which is included in Skilled Nursing income).</td>
</tr>
<tr>
<td>3</td>
<td>PLUS</td>
<td>Skilled Nursing income actual trailing 12-month collections for Skilled Nursing units (if 12-month collections are not available, then actual trailing 6-month collections (annualized)).¹</td>
</tr>
</tbody>
</table>
## REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>PLUS</td>
<td>To the extent deducted as an operating expense, rents for other non-revenue units (e.g., model units deducted in the model apartment operating expense in the general and administrative category, or actual rent from employee units deducted in the employee operating expense in the payroll and benefits category).</td>
</tr>
<tr>
<td></td>
<td>EQUALS</td>
<td>GROSS POTENTIAL RENT (GPR)</td>
</tr>
<tr>
<td>5</td>
<td>MINUS</td>
<td>Physical vacancy market rents for vacant units based on a current rent roll (multiplied by 12).(^2)</td>
</tr>
<tr>
<td>6</td>
<td>MINUS</td>
<td>Concessions the aggregate amount of forgone residential rental income resulting from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc.(^2)</td>
</tr>
<tr>
<td>7</td>
<td>MINUS</td>
<td>Bad debt the aggregate amount of unpaid rental income determined to be uncollectable: include any adjustments to other income for bad debt.(^2)</td>
</tr>
<tr>
<td></td>
<td>EQUALS</td>
<td>NET RENTAL INCOME (NRI)(^1)</td>
</tr>
</tbody>
</table>
# REQUIRED UNDERWRITTEN NCF
(SENIORS HOUSING PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>Skilled Nursing income must not be grossed up to 100% before the 20% deduction is applied. An additional 20% is taken off the Skilled Nursing income.</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>The total of Items 5, 6, and 7 must equal the greater of:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• the difference between the trailing 3-month net rental collections (annualized) and the GPR; or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• the following percentages:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Independent Living: if the percentage of Independent Living units is greater than 50%, then use 5% of GPR.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Assisted Living (60 total units or more): if the percentage of Assisted Living units or the combined percentage of Assisted Living and Alzheimers/Dementia Care units is 50% or greater, then use 5% of GPR.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Assisted Living (less than 60 total units): if the percentage of Assisted Living units or the combined percentage of Assisted Living and Alzheimers/Dementia Care units is 50% or greater, then use 10% of GPR.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Alzheimers/Dementia Care: if the percentage of Alzheimers/Dementia Care units is 100%, then use 10% of GPR.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Skilled Nursing units: use 20% of collections based on the trailing period used in determining Skilled Nursing income in Item 3.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>You must determine if NRI declined per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and adjust Underwritten NRI as required.</td>
</tr>
</tbody>
</table>

## CALCULATION OF ASSISTED LIVING SERVICE INCOME AND OTHER INCOME

| 8    | PLUS | Trailing 12-month nursing/medical income (includes Assisted Living service income). |
| 9    | PLUS | Trailing 12-month ancillary income attributable to Skilled Nursing units, if applicable. |
| 10   | PLUS | Trailing 12-month other income for second resident fees, meals, tray service, laundry, special transportation, community fees, parking revenue, and any other income. |

## CALCULATION OF NET ENTRANCE FEE INCOME
### REQUIRED UNDERWRITTEN NCF
#### (SENIORS HOUSING PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>PLUS</td>
<td>Net entrance fee income associated with CCRCs resident entrance fee collections minus entrance fee refunds, but not more than the annualized average of the trailing 60-months of net entrance fee income.</td>
</tr>
</tbody>
</table>

#### CALCULATION OF COMMERCIAL INCOME

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>PLUS</td>
<td>Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable).</td>
</tr>
<tr>
<td>13</td>
<td>MINUS</td>
<td>10% of the actual commercial income.³</td>
</tr>
</tbody>
</table>

**EFFECTIVE GROSS INCOME (EGI)**

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

#### CALCULATION OF OPERATING EXPENSES

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>MINUS</td>
<td>Line-by-line stabilized operating expenses.</td>
</tr>
</tbody>
</table>

Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a lease-up, rehabilitation, or other short-term positive or negative factors. Non-recurring, extraordinary operating expenses must not be included.

You must assess:

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

You must analyze historical operations at the Property and apply an appropriate increase over the prior years operations in determining an estimate.
<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 15   | MINUS    | Property management fee equal to the greatest of:  
|      |          | • 5% of EGI;  
|      |          | • actual property management fee (exclude any portion of a non-arms-length property management fee that is subordinated to the Mortgage Loan); or  
|      |          | • market property management fee. |
| 16   | MINUS    | Real estate taxes based on the greatest of:  
|      |          | • actual future tax bill(s) covering a full calendar year;  
|      |          | • prior full years taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or  
|      |          | • in California, the greater of the Mortgage Loan amount or the assessed value, multiplied by the millage rate, plus any special assessments.  
|      |          | You must consider any automatic tax reassessment upon acquisition in the next 12-month period.  
|      |          | If the Property has real estate tax abatements, exemptions, or deferrals, they must:  
|      |          | • be in effect at closing, per written documentation from the state or local tax assessor; and  
<p>|      |          | • survive a foreclosure on the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, or deferral benefit (i.e., it is tied to the Property and not the owner). |</p>
<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>MINUS</td>
<td>If the timeframe for the real estate tax abatement, exemption, or deferral is shorter than the Mortgage Loan term, you must consider&lt;br&gt;• a Bifurcated Mortgage Loan structure (i.e., 2 notes secured by a single first Lien Security Instrument),&lt;br&gt;• an amortization schedule that accommodates the elimination of the abatement, or&lt;br&gt;• providing clear justification and support in the refinance analysis.&lt;br&gt;&lt;br&gt;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:&lt;br&gt;&lt;br&gt;• Calculate the base rent as the rent amount per unit before the Decontrol Event date.&lt;br&gt;• Use the base rent for each applicable unit to determine the Gross Rental Income.&lt;br&gt;• Increase the base rent by the appropriate percentage allowed under New York City Rent Stabilization laws per annum through the present rent roll date.</td>
</tr>
<tr>
<td>17</td>
<td>MINUS</td>
<td>Insurance equal to:&lt;br&gt;• the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or&lt;br&gt;• 110% of the current expense, for insurance policies with a remaining term less than 6 months.</td>
</tr>
<tr>
<td>18</td>
<td>MINUS</td>
<td>Room expense housekeeping, if applicable.</td>
</tr>
<tr>
<td>19</td>
<td>MINUS</td>
<td>Meals expense, if applicable.</td>
</tr>
</tbody>
</table>
REQUIRED UNDERWRITTEN NCF
(SENIORS HOUSING PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>MINUS</td>
<td>Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.</td>
</tr>
</tbody>
</table>

EQUALS UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)

| 21   | MINUS    | Replacement Reserve expense per Part III, Chapter 5: Seniors Housing Properties, Section 505: Replacement Reserve. |

EQUALS UNDERWRITTEN NCF

### 504.02 Skilled Nursing NCF Test

**Requirements**

Fannie Mae will not purchase any Mortgage Loan if the Skilled Nursing NCF is more than 20% of the Property's NCF.

You must:

- Calculate the Skilled Nursing NCF at underwriting to determine if the Property will meet this Skilled Nursing NCF test.
- Retest all Properties with Skilled Nursing units annually after closing to ensure compliance.
- Contact the Fannie Mae Deal Team to ensure the Loan Documents for any transaction with Skilled Nursing units include appropriate modifications.

The Skilled Nursing NCF test is a Property-specific test. You must separately test a Property with Skilled Nursing units, if the Mortgage Loan is

- secured by multiple Properties, or
- cross-defaulted or cross-collateralized with another Mortgage Loan.

You must use the following table to calculate the Skilled Nursing NCF.
### REQUIRED SKILLED NURSING NCF AND PERCENTAGE
(SENIORS HOUSING PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>SKILLED NURSING EFFECTIVE GROSS INCOME</strong></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td><strong>SKILLED NURSING INCOME</strong></td>
<td>actual trailing 12-month collections for Skilled Nursing units (if 12-month collections are not available, then actual trailing 6-month collections (annualized)).</td>
</tr>
<tr>
<td>2</td>
<td><strong>MINUS</strong></td>
<td>20% of collections based on the trailing period used in determining the Skilled Nursing income.</td>
</tr>
<tr>
<td>3</td>
<td><strong>PLUS</strong></td>
<td>Ancillary income attributable to Skilled Nursing units.</td>
</tr>
<tr>
<td></td>
<td><strong>EQUALS</strong></td>
<td><strong>SKILLED NURSING EFFECTIVE GROSS INCOME (EGI)</strong></td>
</tr>
<tr>
<td></td>
<td><strong>SKILLED NURSING EXPENSES</strong></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td><strong>MINUS</strong></td>
<td>Fixed expenses greater of actual or allocated fixed expenses (e.g., real estate taxes, liability insurance, etc.) for Skilled Nursing units.</td>
</tr>
<tr>
<td>5</td>
<td><strong>MINUS</strong></td>
<td>Variable operating expenses for Skilled Nursing units.</td>
</tr>
<tr>
<td></td>
<td><strong>EQUALS</strong></td>
<td><strong>SKILLED NURSING NCF</strong></td>
</tr>
<tr>
<td>6</td>
<td><strong>DIVIDED BY</strong></td>
<td>Underwritten NCF per Part III, Chapter 5: Seniors Housing Properties, Section 504.01: Underwritten NCF.</td>
</tr>
<tr>
<td></td>
<td><strong>EQUALS</strong></td>
<td><strong>SKILLED NURSING NCF PERCENTAGE</strong></td>
</tr>
</tbody>
</table>

### 504.03 Operating Lease Ratios

- **Requirements**
  - If the Seniors Housing Operator
    - does not have any direct or indirect ownership interest in the Borrower or the Key Principal, or
    - is not a Person Controlled by, under common Control with, or which Controls, the Borrower or Key Principal, then you must ensure that the
Property meets the following ratios:

<table>
<thead>
<tr>
<th>Ratios</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Lease Coverage Ratio</td>
<td>The minimum underwriting ratios for Underwritten NCF to current year operating lease payments are:</td>
</tr>
<tr>
<td></td>
<td>• 1.10 for Seniors Housing Properties where more than 50% of the units are Independent Living units; and</td>
</tr>
<tr>
<td></td>
<td>• 1.15 for Seniors Housing Properties where 50% or more of the units are Assisted Living, Alzheimers/Dementia Care, or Skilled Nursing units.</td>
</tr>
<tr>
<td>Operating Lease Payment to Debt Service Payment Ratio</td>
<td>The minimum underwriting ratios of the current year operating lease payments to the underwritten fixed rate debt service payments are:</td>
</tr>
<tr>
<td></td>
<td>• 1.15 for Seniors Housing Properties where more than 50% of the units are Independent Living units; and</td>
</tr>
<tr>
<td></td>
<td>• 1.20 for Seniors Housing Properties where 50% or more of the units are Assisted Living, Alzheimers/Dementia Care, or Skilled Nursing units.</td>
</tr>
</tbody>
</table>

### 504.04 Operating Lease Analysis

- **Requirements**

  Before finalizing the Loan Documents, you must:

  - Obtain a copy of each management agreement, operating lease, master lease, and sublease including all exhibits and amendments.
  - Upload into DUS Gateway a completed Seniors Housing Operating Lease Review Checklist (Form 6487.SRS) that analyzes the
    - underwriting and legal aspects of each lease and its impact on the operations of the Property, and
    - obligations of the Borrower, each Guarantor, and the Seniors Housing Operator under the Loan Documents.

### Section 505 Replacement Reserve

- **Requirements**
The minimum Replacement Reserve amount must equal the greatest of:

- the amount calculated per Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve;
- $300 per unit per year for a Property with no Skilled Nursing units; or
- $450 per unit per year for a Property with any Skilled Nursing units.

### Section 506  Medicaid Funds

#### 506.01  Dependency and Medicaid Transition Reserve

**Requirements**

You must analyze the EGI to determine the percentage derived from payments under a Medicaid provider agreement with a government authority or managed care organization (Medicaid Funds).

**Operating Procedures**

If more than 20% of the EGI is derived from Medicaid Funds, Fannie Mae may require that you

- establish a Medicaid transition reserve account, and/or
- enter into an account control agreement with the Borrower.

If Fannie Mae requires a Medicaid transition reserve, you must:

- determine the appropriate amount of the reserve by considering the reimbursement rates of the government authority or managed care organization, and percentage of Medicaid-supported residents at the Property;

- ensure that the Borrower sufficiently funds the reserve; and

- use the Modifications to Multifamily Loan and Security Agreement (Medicaid Transition Reserve) (Form 6237.SRS) and Modifications to Multifamily Loan and Security Agreement – Addenda to Schedule 2 – Summary of Loan Terms (Medicaid Transition Reserve) (Form 6102.21.SRS).

If Fannie Mae requires an account control agreement, you must

- require the Borrower to deposit the Medicaid Funds into a controlled account,

- include in the agreement an acknowledgement of Fannie Mae’s first Lien...
on, and control over, the Medicaid Funds, and
- obtain Fannie Mae's approval if you elect not to use Fannie Mae's form.

### 506.02 State Medicaid

- **Requirements**

  The Property must be located in a state that has a
  - Medicaid waiver in place, or
  - Medicaid plan that allows for the payment of services and housing costs from Medicaid Funds.

  You must document the Medicaid waiver or plan and demonstrate that it allows for the payment of services performed, and housing costs incurred, at the Property.

### Section 507 Consultant Reports

#### 507.01 Management, Operations, and Regulatory Compliance

- **Requirements**

  You must engage a third-party professional to analyze the Property's management, operations, and regulatory compliance.

  The third-party professional you select must have:
  - been in good standing for the past 5 years as a licensed administrator, licensed practical nurse, or registered nurse; and
  - at least 5 years of experience with
    - the operation of Seniors Housing Properties, and
    - regulatory matters affecting Seniors Housing Properties.

  You must assess and summarize the information presented and conclusions reached by the third-party professional.

#### 507.02 Management and Operations Reports

- **Requirements**

  You must obtain management and operations reports for the Property that assess:
  - competency, performance, and experience of management at the
corporate, regional, and Property levels;

- qualifications of key personnel,
  - noting their experience and length of time in current positions at the Property, and
  - including copies of available resumes;

- hiring and screening practices and personnel policies (such as employee handbooks, orientation materials, initial and in-service training materials, available resources);

- staffing levels, composition, and qualifications;

- risk management policies and procedures, including an analysis of the backgrounds of individuals employed to handle insurance and risk management matters;

- policies and procedures supporting and aligning resident services;

- availability and use of home health services, including whether
  - home health services are available,
  - home health services are provided by the Borrower, the Seniors Housing Operator, an Affiliate of the Borrower or the operator, or a third party, and
  - the home services provider leases space at the Property;

- policies and procedures for documenting residents’ well-being (such as periodic resident assessments, tracking the general health condition of each resident, resident safety and evacuation plans);

- content of the admission application and the residency or lease agreement;

- resident turnover data;

- availability of replacements for the Seniors Housing Operator; and

- overall management and operations, including an analysis and detailed recommendations for any other matters material to the ownership, operation, or management of the Property.

### 507.03 Regulatory Compliance Report

#### Requirements

You must obtain a Regulatory Compliance Report for all licensed Seniors Housing Properties. The report must include the following information as of the date of the report:

- identity of all government authorities with jurisdiction over the Property and each authority’s definition of the level of care permitted at the
Property;

- summary and copies of all government surveys conducted during the past 3 years, including
  - a summary and analysis of all deficiencies identified in the surveys,
  - the severity of these deficiencies, and
  - the correction plans for all deficiencies, whether corrected or outstanding;

- summary and analysis of all enforcement actions during the past 3 years resulting from a state survey inspection (such as a probationary license or ban on admissions), together with a summary and analysis of any remedial plan of action;

- photocopies of all regulatory permits, licenses, and certificates;

- state staffing requirements;

- summary of the status of any federal, state, or local proposed regulations (or amendments to existing regulations) that could affect the Property or any aspect of the Seniors Housing industry;

- summary of the regulatory and licensing procedures required to change Property ownership, any service provider, the authority to operate, or the management of the Property, and this summary must
  - identify the changes that require advance notice and/or prior approval from the relevant government authority, and
  - describe any advance notice requirements, such as timing, required recipients, and required notice content;

- if the Borrower or Seniors Housing Operator participates in
  - the state’s Medicaid waiver program, or
  - another third-party subsidy program,
  - an assessment of the risk to the Property’s operations if the program is discontinued;

- identification and analysis of any special insurance requirements of government authorities (such as workers compensation insurance or medical director professional liability insurance);

- copies of the sources and references used to complete this report; and

- overall assessment of regulatory matters affecting the Property, including an analysis and detailed recommendations for any other matters material to the ownership, operation, or management of the Property.
Chapter 6  Manufactured Housing Communities

Section 601  Description

✓ Requirements

An MH Community is a residential real estate development with lots on which Manufactured Homes are located, together with amenities, utility services, landscaping, roads, and other infrastructure.

Section 602  Lender Eligibility

✓ Requirements

You must be approved in writing to Deliver MH Community Mortgage Loans.

Section 603  Legal and Property Compliance

603.01  Borrower and the MH Community

603.01A  Borrower Ownership

✓ Requirements

If the Borrower is a non-profit entity, then you must ensure that each of the following complies with Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals:

- the Borrower;
- Key Principals;
- Guarantors; and
- Principals.

➡ Guidance

If the Borrower is a non-profit entity, you may reimburse the Borrower from the Origination Fee for up to a combined total of $10,000 for the cost of any required MH Community Mortgage Loan third-party reports (e.g., Appraisal, Environmental Site Assessment).

🌿 Operating Procedures

Fannie Mae will reimburse the cost of any third-party report within 2 months after the delivery of the Mortgage Loan. To receive reimbursement, you must:
request an invoice from the vendor with the report cost listed as a separate line item from any ancillary charges (Fannie Mae will not reimburse other costs such as fees for expediting a report);

within 1 month after the Mortgage Loan Origination Date:

- complete Form 4829, detailing the Lender’s information, the commitment number or loan number, Property information, wiring instructions, and listing the third-party cost as “Other” (note that any fields related to servicing may be left blank); and
- manually sign or e-sign Form 4829, scan or save it as a PDF file, and email the signed PDF Form 4829 and the third-party report invoice to: mhc_report_reimbursement@fanniemae.com.

603.01B Collateral; Tenant-Occupied and Affiliate-Owned Homes

Requirements

The collateral for an MH Community Mortgage Loan consists of

- the MH Community’s land and infrastructure,
- the rents for the MH Sites, and
- any other Borrower-owned property used for the MH Community.

The percentage of tenant-occupied Manufactured Homes must not exceed 35%. If the percentage of tenant-occupied Manufactured Homes is greater than 25%, then:

- the Borrower’s business plan must reflect the conversion of tenant-occupied Manufactured Homes to owner-occupied over time; and
- on-going business related to the sale, financing, or rental of a Manufactured Home located on the Property must be performed by an Affiliate.

If any Affiliate-Owned Manufactured Homes are leased to tenants by an Affiliate of either the Borrower or a Key Principal, then:

- The MH Site lease must be at a market rate rent.
- If the tenant’s rent payment includes both the rent for the Affiliate-Owned Manufactured Home and the rent for the MH Site, then either:
  - the check must be payable to and deposited by the Borrower, which must pay all required P&I, and escrows before remitting the rent payment to the Affiliate; or
  - you must consider whether it is appropriate to require a lockbox arrangement with the Borrower and the Affiliate.
— into which all rent checks for the Manufactured Homes and MH Sites must be deposited, and
— from which you can control the disbursement of funds for P&I, required escrows, and the Manufactured Home rentals, with the remainder disbursed to the Borrower.

603.01C  MH Community

☐ Requirements

An MH Community Mortgage Loan must be secured by a first priority Lien on an MH Community that:

- has a minimum of 50 MH Sites;
- is made up of contiguous parcels or, if the MH Community is made up of Non-Contiguous Parcels, then:
  - all parcels are located within the same MSA; and
  - each separate parcel (individually), and all Non-Contiguous Parcels (together), comply with the Guide; and
- achieves at least a Level 3 Quality Rating per the Manufactured Housing Community Quality Rating Standards table in Part III, Chapter 6: Manufactured Housing Communities, Section 603.02: MH Community Score.

An MH Community must be served by either

- public underground utilities, or
- private sewage treatment plants, septic systems, and private water wells which are:
  - common for the market;
  - owned by the Borrower or an Affiliate; and
  - in compliance with all applicable government requirements.

 Guidance

The Mortgage Loan may be secured by either an Age-Restricted MH Community or an All-Age MH Community.

You should consider the following:

- For an MH Community that is more than 25 years old, does the Borrower have a plan for placing new Manufactured Homes in the MH Community
as MH Sites with older Manufactured Homes are vacated?

- Are the landscaping and entrance signage high quality and well maintained?

- For an MH Community served by a private sewage treatment plant, septic system, or a private water well, then:
  
  - Address the availability and cost of obtaining a backup source for water if the MH Community has a private water well.
  
  - Ensure that the operator of the facility, including its employees and contractors, meet all applicable government requirements to perform ongoing operation and maintenance.
  
  - If the operator is an employee of the Borrower, identify a local, qualified vendor that could be retained if substitute services are needed.
  
  - Exercise reasonable due diligence, including contacting municipal agencies, to confirm that
    
    - the MH Community’s connection to a municipal system has not been mandated, and
    
    - no mandate is expected to occur during the term of the Mortgage Loan.
  
  - If hookup is imminent, determine if an escrow for the cost is appropriate.

---

**603.02 MH Community Score**

**✓ Requirements**

You must determine the MH Community Score using the MH Community Quality Rating Standards table. The overall MH Community Quality Rating is based on the lowest rating for any 1 characteristic.

The MH Community must:

- meet a Level 3 Quality Rating; or

- achieve most of the minimum Quality Rating characteristics and either
  
  - the unsatisfactory characteristics are not materially detrimental to the performance, overall appearance, desirability, and quality of the MH Community, or
  
  - any failed characteristic must be remediated as a Completion/Repair item.
## Manufactured Housing Community Quality Rating Standards

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Level 3 Quality Rating</th>
<th>Level 4 Quality Rating</th>
<th>Level 5 Quality Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Streets</strong></td>
<td>Paved Roads.</td>
<td>Same as Level 3.</td>
<td>Rolled curbs (if warranted by layout/drainage needs).</td>
</tr>
<tr>
<td><strong>Home Sites</strong></td>
<td>• Area under the Manufactured Homes consists of concrete, crushed rock, or dirt. • Entry to the Manufactured Homes is through a patio or porch. • Manufactured Homes are supported by stacks of hollow concrete block or steel pier systems along the main beams (with ground anchors and steel straps holding the frame against movement) that meet local and state requirements.</td>
<td>Same as Level 3 with at least 60% of MH Sites having commercial grade porch/cabanas or patios.</td>
<td>Same as Level 3 with all MH Sites having commercial grade porch/cabanas or patios.</td>
</tr>
<tr>
<td>Characteristic</td>
<td>Level 3 Quality Rating</td>
<td>Level 4 Quality Rating</td>
<td>Level 5 Quality Rating</td>
</tr>
<tr>
<td>---------------</td>
<td>------------------------</td>
<td>------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td></td>
<td>Minimum Standard</td>
<td>Minimum Standard applies (except as detailed)</td>
<td>Level 4 applies (except as detailed)</td>
</tr>
<tr>
<td>Site Size</td>
<td>Preference for 50% doublewide MH Sites, however you have delegated discretion on the percentage of doublewide sites as long as the MH Community is competitive with a clear market demand for singlewide MH Sites.</td>
<td>Same as Level 3.</td>
<td>Minimum 50% doublewide MH Sites.</td>
</tr>
<tr>
<td>Density</td>
<td>Density reflects the norm for the Property market. Generally, maximum density is 12 MH Sites per acre, however you have delegated discretion to determine the typical density in your market.</td>
<td>Density reflects the norm for the Property market. Generally, maximum density is 7 MH Sites per acre, or 10 MH Sites per acre if developed before 2000.</td>
<td>Same as Level 4.</td>
</tr>
<tr>
<td>Characteristic</td>
<td>Level 3 Quality Rating</td>
<td>Level 4 Quality Rating</td>
<td>Level 5 Quality Rating</td>
</tr>
<tr>
<td>------------------</td>
<td>------------------------</td>
<td>------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Skirts/Hitches</td>
<td>Minimum Standard</td>
<td>Minimum Standard applies (except as detailed)</td>
<td>Level 4 applies (except as detailed)</td>
</tr>
<tr>
<td></td>
<td>100% of the Manufactured Homes are professionally skirted, with hitches covered or removed. You can meet this requirement through a Completion/Repair Agreement.</td>
<td>Same as Level 3.</td>
<td>All of the Manufactured Homes are professionally skirted, with hitches removed.</td>
</tr>
<tr>
<td>Parking</td>
<td>Minimum of 2 on- or off-street parking spaces per MH Site that are properly maintained, paved, concrete, or gravel (if common in the market). You have delegated discretion to determine compliance based on prevailing market conditions, subject to local ordinances.</td>
<td>Same as Level 3.</td>
<td>2 paved off-street parking spaces per MH Site.</td>
</tr>
</tbody>
</table>
### Manufactured Housing Community Quality Rating Standards

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Level 3 Quality Rating</th>
<th>Level 4 Quality Rating</th>
<th>Level 5 Quality Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Standard</td>
<td>Minimum Standard applies (except as detailed)</td>
<td>Level 4 applies (except as detailed)</td>
<td></td>
</tr>
<tr>
<td>Amenities</td>
<td>Not required, but amenity package should be competitive based on market comparables.</td>
<td>Competitive amenity package required.</td>
<td>High quality amenity package competitive with other high-quality MH Communities.</td>
</tr>
</tbody>
</table>

### 603.03 Code Standards

#### Requirements

You must determine if all Manufactured Homes in the MH Community meet the requirements of the Federal Manufactured Home Construction and Safety Standards of 1974 (HUD Code) (42 USC Chapter 70; 24 CFR Part 3280), as amended.

#### Guidance

Fannie Mae may allow pre-HUD Code Manufactured Homes if

- they are Borrower-owned homes or Affiliate-Owned Homes that comply with local codes with no identified life safety issues,
- the Borrower certifies, and the Loan Documents reflect that no additional pre-HUD Code homes will be added to the MH Community during the term of the Mortgage Loan, and
- you document the number of pre-HUD Code homes.

### 603.04 Flood Zone

#### 603.04A Rising Water

#### Requirements

For an MH Community located in a flood zone with rising water (e.g., flood water that quickly dissipates and flood zone A or AE) you must ensure the
Borrower notifies all Homeowners and all tenants of Borrower-owned or Affiliate-Owned Homes occupying an MH Site located in the flood zone before the Mortgage Loan Origination Date.

**For Manufactured Homes located in a rising water flood zone...**

<table>
<thead>
<tr>
<th>If you</th>
<th>Then:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• do not know the base flood elevation for the flood zone (e.g., flood zone A), or • know that the living floor levels are below the base flood elevation</td>
<td>• you must calculate the Underwritten DSCR excluding the site rent for Manufactured Homes with living floor levels within the flood zone; and • if the resulting Underwritten DSCR decreases to more than 10 basis points below the minimum Tier 2 standard, you cannot underwrite the site rent for those Manufactured Homes.</td>
</tr>
</tbody>
</table>

---

### 603.04B Moving Water

**Requirements**

For an MH Community located in a flood zone with the potential for flooding due to moving water (e.g., typically in flood zone A and AE and located next to a stream, river, etc.), you must ensure:

- your underwriting assumes that MH Sites located in the flood zone are considered non-income producing MH Sites; and
- the Borrower notifies all Homeowners and all tenants of Borrower-owned or Affiliate-Owned Homes occupying an MH Site located in the flood zone before the Mortgage Loan Origination Date.

### 603.05 Lease Terms

#### 603.05A Master Leases

**Requirements**

You must ensure there are no master lease arrangements affecting any of the MH Sites.

#### 603.05B MH Site Leases
Requirements

Leases must be in writing and must not contain an option to purchase the MH Site.

Guidance

You may reimburse the Borrower from the Origination Fee for up to a combined total of $10,000 for the cost of any required third-party reports if the Borrower implements all of the following tenant MH Site Lease protections for at least 50% of the MH Sites:

- 1-year renewable MH Site Lease term, unless there is good cause for nonrenewal;
- minimum 30-day written notice of rent increases;
- 5-day grace period for rent payments, and tenant’s right to cure defaults for nonpayment of MH Site Lease rent; and
- tenant’s right to:
  - sell the Manufactured Home without first relocating it out of the community;
  - sublease the Manufactured Home or assign the MH Site Lease to a buyer, as long as the buyer meets the minimum MH Community rules, regulations, and credit quality for financing consistent in the market;
  - post “for sale” signs on the Manufactured Home that comply with the MH Community Rules and Regulations;
  - sell the Manufactured Home in place within 45 days after eviction; and
  - receive notice at least 60 days before any planned sale or closure of the MH Community.

Operating Procedures

Fannie Mae will reimburse the cost of any third-party report within 2 months after the delivery of the Mortgage Loan. To receive reimbursement, you must:

- request an invoice from the vendor with the report cost listed as a separate line item from any ancillary charges (Fannie Mae will not reimburse other costs such as fees for expediting a report);
- within 1 month after the Mortgage Loan Origination Date:
  - complete Form 4829, detailing the Lender’s information, the commitment number or loan number, Property information, wiring instructions, and listing the third-party cost as “Other” (note that any
fields related to servicing may be left blank); and

- manually sign or e-sign Form 4829, scan or save it as a PDF file, and email the signed PDF Form 4829 and the third-party report invoice to mhc_report_reimbursement@fanniemae.com;

- include in the Multifamily Loan Agreement:
  - a Borrower representation stating the actual percentage of MH Site Leases that incorporate the required tenant protections, and a covenant to continue the tenant protections over the entire Mortgage Loan term; and
  - a Borrower requirement to annually submit to you:
    - a certified copy of the MH Community’s current Rules and Regulations;
    - a certified copy of the current form of Residential Leases for MH Sites;
    - copies of any actual Residential Leases for MH Sites you request; and
    - a certification of the actual percentage of MH Site Leases that include all of the required tenant protections; and

- receive a Guaranty (Payment) (Form 6020 series) from the Key Principal, guarantying the repayment (not to exceed 10% of the Mortgage Loan amount) of all pricing incentives, rebates, and fees you provided if the Borrower fails to maintain the specified percentage of MH Site Leases with all of the required tenant protections.

 Guidance

You may allow

- month-to-month lease terms,
- lease terms for up to 2 years, and
- lease terms longer than 2 years, but only if the lease provides for:
  - an annual rent increase sufficient to cover the current and/or projected Consumer Price Index (CPI);
  - the pass-through of real estate taxes over a base year;
  - the pass-through of any utilities provided by the Borrower; and
  - cannot result in the Manufactured Home on the MH Site being titled as real estate.
**603.05C Loan Document Modification**

- **Requirements**

You must modify the Loan Documents to reflect the use of short-term or long-term leases.

---

**Section 604 Property Insurance**

- **Requirements**

You must ensure that the security for an MH Community Mortgage Loan (per Part III, Chapter 6: Manufactured Housing Communities, Section 603.01B: Collateral; Tenant-Occupied and Affiliate-Owned Homes) complies with Part II, Chapter 5: Property and Liability Insurance.

---

**Section 605 Survey**

- **Requirements**

If you obtain an acceptable as-built survey of the Property, it must comply with Part II, Chapter 3: Legal Compliance, Section 305: Survey.

- **Guidance**

You should ensure that the survey only shows the location or dimensions of:

- the individual MH Sites,
- any individual Manufactured Homes or recreational vehicles, and/or
- the related MH Site or recreational vehicle site (RV Site), piers, and/or foundations, that constitute encroachments.

---

**605.01 Public Roadways, Private Interior Roadways, and Drives**

- **Guidance**

You should ensure that the survey accurately shows all public roadways.

For any private interior access roads, streets, drives, parking areas, visible utilities, and structures without foundations, the survey:

- does not need to show them accurately from field measurements, unless they constitute encroachments;
- should include a sketch showing their approximate location; and
- may locate them by photogrammetric or other approximate methods.
605.02 Setbacks

 Guidance

You should identify and show 2 different types of setbacks on the survey:

- setback restrictions shown in documents of record; and
- setbacks imposed by applicable zoning ordinances or building codes.

You should ensure that the survey:

- states that the zoning setbacks apply only to permanent buildings and not to the Manufactured Homes; and
- includes recorded references or citations to authority for the zoning setbacks, or gives the reason why this information is not available.

605.03 Encroachments

 Guidance

You may show the following encroachments by a simple indicating mark (i.e., a distinctive mark or symbol identified in the legend), without indicating dimensions:

- nonpermanent outbuildings or other structures; and
- recreational vehicles that are not set upon a supporting foundation, MH Site, or pier.

Section 606 Property Income and Underwritten NCF

Requirements

You must use the following table to calculate Underwritten NCF.

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>CALCULATION OF NET RENTAL INCOME</td>
</tr>
</tbody>
</table>

**REQUIRED UNDERWRITTEN NCF (MANUFACTURED HOUSING COMMUNITY)**
## REQUIRED UNDERWRITTEN NCF
### (MANUFACTURED HOUSING COMMUNITY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td><strong>GROSS RENTAL INCOME¹</strong> actual MH Site rents in place where Manufactured Homes are installed under leases with residents in occupancy, plus market rents for vacant MH Sites and MH Sites with vacant Manufactured Homes based on a current rent roll (multiplied by 12).</td>
</tr>
</tbody>
</table>
| 2    | PLUS     | To the extent deducted as an operating expense, MH Site rents for other non-revenue MH Sites, such as:  
  - MH Sites with model Manufactured Homes deducted in the model apartment operating expense in the general and administrative category; and  
  - actual MH Site rent from employee Manufactured Homes deducted in the employee operating expense in the payroll and benefits category. |
| 3    | MINUS    | **GROSS POTENTIAL RENT (GPR)**  
  - Physical vacancy²  
    - market rents for vacant MH Sites based on a current rent roll (multiplied by 12); and  
    - net rental collections for occupied MH Sites where the Manufactured Home is vacant, and the MH Site rent is paid by the MH Community owner, prior occupants, or a third party (e.g., a retail creditor). |
| 4    | MINUS    | Concessions the aggregate amount of forgone residential rental income resulting from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc.² |
| 5    | MINUS    | Bad debt the aggregate amount of unpaid rental income determined to be uncollectable: include any adjustments to other income for bad debt.² |
### REQUIRED UNDERWRITTEN NCF (MANUFACTURED HOUSING COMMUNITY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>EQUALS</td>
<td>NET RENTAL INCOME (NRI)³⁴</td>
</tr>
</tbody>
</table>

1. Includes the MH Site rent for any Affiliate-Owned Manufactured Home or Borrower-owned Manufactured Homes, but excludes the rent (or that portion of the rent) for the Manufactured Home.

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

If a rent increase with verified actual collections was instituted within the trailing 3 months, then NRI may be calculated based on the trailing 1-month net rental collections (annualized).

3. If NRI is greater than the trailing 1-month of actual NRI (annualized), then reduce to actual NRI.

4. You must assess any decline in NRI per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis, and adjust Underwritten NRI as required.

---

**CALCULATION OF OTHER INCOME**
### REQUIRED UNDERWRITTEN NCF
( MANUFACTURED HOUSING COMMUNITY )

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 6    | PLUS     | Actual other income generated through ongoing operations. The income must:  
• be stable;  
• be common in the market;  
• exclude one-time extraordinary non-recurring items; and  
• be supported by prior years.  
You must assess the individual month other income within the prior full-year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized).  
If there are fluctuations, you may use other income that exceeds the trailing 3-month other income (annualized), as long as it does not exceed the highest 1-month other income used in the trailing 3-month other income calculation. |
| 7    | PLUS     | For RV Sites with lease terms of 30 days or more, the lesser of  
• actual average net collections for the past 3 years, or  
• the current trailing 12-month RV Site rents, minus a 10% vacancy. |

#### CALCULATION OF COMMERCIAL INCOME

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>PLUS</td>
<td>Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable).</td>
</tr>
<tr>
<td>9</td>
<td>PLUS</td>
<td>Actual average RV Site rental income for RV Sites with lease terms of less than 30 days.</td>
</tr>
<tr>
<td>10</td>
<td>MINUS</td>
<td>10% of the actual commercial income (total of Items 8 plus 9).</td>
</tr>
</tbody>
</table>
### REQUIRED UNDERWRITTEN NCF (MANUFACTURED HOUSING COMMUNITY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>If the average RV Site rental income for RV Sites with lease terms of 30 days or more is greater than 20% of EGI, then reduce to 20% of EGI.</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>If net commercial income is greater than 10% of EGI, then reduce to 10% of EGI. Additionally, total RV Site income from Items 7 and 9 (less 10% vacancy) cannot exceed 20% of EGI.</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>PLUS</td>
<td>Laundry and, vending, parking, and all other income per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>EQUALS EFFECTIVE GROSS INCOME (EGI)</strong></td>
</tr>
</tbody>
</table>
| 12   | MINUS   | Line-by-line stabilized operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a lease-up, rehabilitation, or other short-term positive or negative factors. Non-recurring, extraordinary operating expenses must not be included. You must assess:  
  • past operating history;  
  • the appraisers expense analysis;  
  • all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and  
  • the Borrowers budget (in the case of an acquisition).  
You must analyze historical operations at the Property and apply an appropriate increase over the prior years operations in determining an estimate. |
### REQUIRED UNDERWRITTEN NCF
(MANUFACTURED HOUSING COMMUNITY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>MINUS</td>
<td>Property management fee equal to the greatest of:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 3% of EGI;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• actual property management fee (exclude any portion of a non-arms length property management fee that is subordinated to the Mortgage Loan); or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• market property management fee.</td>
</tr>
<tr>
<td>14</td>
<td>MINUS</td>
<td>Real estate taxes based on the greatest of:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• actual future tax bill(s) covering a full calendar year;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• prior full years taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• in California, the greater of the Mortgage Loan amount or the assessed value, multiplied by the millage rate, plus any special assessments.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>You must consider any automatic reassessment upon acquisition in the next 12-month period, and include ad valorem taxes for Borrower-owned Manufactured Homes.</td>
</tr>
<tr>
<td>15</td>
<td>MINUS</td>
<td>Insurance equal to:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 110% of the current expense, for insurance policies with a remaining term less than 6 months.</td>
</tr>
<tr>
<td>16</td>
<td>MINUS</td>
<td>Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.</td>
</tr>
<tr>
<td>Item</td>
<td>Function</td>
<td>Description</td>
</tr>
<tr>
<td>------</td>
<td>----------</td>
<td>-------------</td>
</tr>
<tr>
<td></td>
<td>EQUALS</td>
<td>UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)</td>
</tr>
<tr>
<td>17</td>
<td>MINUS</td>
<td>Replacement Reserve expense per Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve, with a minimum annual amount of $25 per MH Site.</td>
</tr>
<tr>
<td></td>
<td>EQUALS</td>
<td>UNDERWRITTEN NCF</td>
</tr>
</tbody>
</table>

**Section 607** Replacement Reserve

**Requirements**

If the Replacement Reserve determined by the Property Condition Assessment is more than $75 per MH Site, full funding of the Replacement Reserve is required per Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve.
Chapter 7  Multifamily Affordable Housing Properties

Section 701  Generally

**701.01  Description**

**Requirements**

An MAH Property is a Property that is encumbered by a regulatory agreement, land use restriction agreement, extended use agreement, or similar restriction (an Affordable Regulatory Agreement) that

- limits rents that can be charged to tenants, or
- imposes income limits on tenants.

An Affordable Preservation Transaction is any transaction involving an MAH Property that:

- currently has rent or income restrictions meeting the eligibility criteria of an MAH Property, but the Property is potentially at risk of being lost from the affordable housing inventory through conversion to market-rate housing;
- is not receiving new LIHTCs; and
- is being acquired or refinanced, but excludes a Mortgage Loan paying off the initial construction loan.

**701.02  Eligible Lenders**

**Requirements**

You must be approved in writing to Deliver MAH Mortgage Loans.

Section 702  MAH Property Eligibility

**702.01  Eligible Characteristics and Underwriting**

**Requirements**

You must ensure that an MAH Property has rent or income restrictions that meet or exceed 1 of the following:

- **20% @ 50%**: at least 20% of all units have rent or income restrictions in place making them affordable to households earning no more than 50% of AMI as adjusted for family size.
- **40% @ 60%**: at least 40% of all units have rent or income restrictions in place making them affordable to households earning no more than 60% of AMI.
AMI as adjusted for family size (except for New York City, where at least 25% of all units have rent or income restrictions in place, making them affordable to households earning no more than 60% of AMI as adjusted for family size).

- **HAP contract**: at least 20% of all units are subject to a project-based HAP contract.

- **Special Public Purpose**: the Property
  - is subject to an Affordable Regulatory Agreement imposed by a government entity, containing other rent and/or income restrictions,
  - has rent or income restrictions that meet or exceed 20% @ 80%: at least 20% of all units have rent or income restrictions in place making them affordable to households earning no more than 80% of AMI as adjusted for family size,
  - has rent not exceeding 30% of the adjusted AMI, and
  - meets a noteworthy special public purpose.

- **Sponsor-Initiated Affordability**: the Borrower may voluntarily self-impose rent and income restrictions to preserve or create multifamily affordable housing. These restrictions must:
  - require the Property to have
    - rent and income restrictions that meet or exceed 20% @ 80%: at least 20% of all units have rent and income restrictions in place making them affordable to households earning no more than 80% of AMI as adjusted for family size, and
    - restricted unit rent limits not exceeding 30% of the adjusted AMI;
  - be placed on record against the Property by executing the Sponsor-Initiated Affordability Agreement (Form 6490);
  - be in place at the Property by the Mortgage Loan Origination Date;
  - require the Property to comply with the Sponsor-Initiated Affordability Agreement (Form 6490) within 12 months after the Mortgage Loan Origination Date;
  - remain in place during the Mortgage Loan term; and
  - be certified annually by the Borrower and monitored by an Administering Agent for compliance with the Sponsor-Initiated Affordability Agreement (Form 6490).

**Guidance**

An MAH Property may also:
be subject to FHA Risk Sharing;
be financed using tax-exempt Bonds;
receive LIHTCs under Section 42 of the Internal Revenue Code, and its related U.S. Treasury regulations;
be subject to inclusionary zoning (e.g., targeting certain income levels or employees of certain firms or institutions, etc.) or resale restrictions; or
receive other state, local or federal subsidies which are conditioned on the affordability of some or all of the units in the Property, including Rural Housing Service (RHS) Section 515 Loans, and Loans insured under Section 202 or Section 236 of the National Housing Act.

Requirements

You must:

- Reflect the impact of the rent or income restrictions in your underwriting.
- Maintain a copy of the applicable Affordable Regulatory Agreement or Property restrictions in your Servicing File.

Operating Procedures

For any Property with Sponsor-Initiated Affordability, the Borrower must execute the:

- Sponsor-Initiated Affordability Agreement (Form 6490);
- Modifications to Multifamily Loan and Security Agreement (Sponsor-Initiated Affordability Restrictions) (Form 6271); and
- Payment Guaranty (Pricing Incentive Recapture) (Form 6020.PIR).

To commit and Deliver a Mortgage Loan that qualifies as Special Public Purpose or Sponsor-Initiated Affordability, refer to:

- Multifamily Affordable Housing Property Definition – Special Public Purpose FAQs; and
- Sponsor-Initiated Affordability FAQs.

702.02 Ineligible Characteristics and Underwriting

Requirements

You must not underwrite or price the Property as an MAH Property if it:

- has less than 3 years of rent or income restrictions remaining on the
Affordable Regulatory Agreement; and

- is expected to transition to market rents during the term of the Mortgage Loan; or
- has 3 or more years of LIHTC restrictions remaining, but the Borrower intends to enter into the Qualified Contract Process (per Section 42 of the Internal Revenue Code) within 3 years after the Mortgage Loan Origination Date.

Section 703 Property Income and Underwriting

### 703.01 Underwritten NCF

**☑ Requirements**

You must use the following table to calculate Underwritten NCF.

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td><strong>CALCULATION OF NET RENTAL INCOME</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>GROSS RENTAL INCOME</strong> the least of:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• rents permitted under any federal, state, or local subsidy program applicable to the Property, as adjusted for AMI, family size, and number of bedrooms in a unit, and reductions for the applicable utility allowances;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• rents permitted under any restrictive covenants, subordinate financing requirements, or an Affordable Regulatory Agreement recorded on the Property; or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• actual rents in place for occupied units, plus the lesser of</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- market rents, or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- permitted rents, described above for vacant units based on a current rent roll (multiplied by 12).{sup}²</td>
</tr>
</tbody>
</table>

Rent from non-project based Housing Choice Vouchers must not exceed the average rent for comparable units without non-project based Housing Choice Vouchers.

You must include incremental HAP contract income per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 707.01: Properties with Both HAP Contracts and LIHTC Units.
<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>PLUS</td>
<td>To the extent deducted as an operating expense, rents for other non-revenue units (e.g., model units deducted in the model apartment operating expense in the general and administrative category, or actual rent from employee units deducted in the employee operating expense in the payroll and benefits category).</td>
</tr>
<tr>
<td>3</td>
<td>MINUS</td>
<td>Physical vacancy applicable actual rents for vacant units and MAH unit type (e.g., 20% @ 50%, 40% @ 60%, or HAP contract) based on a current rent roll (multiplied by 12).</td>
</tr>
<tr>
<td>4</td>
<td>MINUS</td>
<td>Concessions the aggregate amount of forgone residential rental income resulting from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc.).</td>
</tr>
<tr>
<td>5</td>
<td>MINUS</td>
<td>Bad debt the aggregate amount of unpaid rental income determined to be uncollectable: include any adjustments to other income for bad debt.</td>
</tr>
</tbody>
</table>

**REQUIRED UNDERWRITTEN NCF**
(MULTIFAMILY AFFORDABLE PROPERTY)

**EQLUALS**
GROSS POTENTIAL RENT (GPR)¹

**EQLUALS**
NET RENTAL INCOME (NRI)² ³ ⁴
<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 1 | For Properties with HAP contracts, you | • may use newly approved rents if they are effective by the first day of the month after the Mortgage Loan Origination Date, even if the rents exceed trailing GPR, but  
• may not use rents based on  
  - an agreement to enter into a HAP contract (AHAP),  
  - commitment to enter into a Housing Assistance Payment contract (CHAP), or  
  - a "comfort letter". |
| 2 | You may underwrite HAP contract rents up to: | • 5% above market rents if the MAH Property is located in an Eligible MSA; or  
• 10% above market rents if the MAH Property is located in a Strong Market, provided the Property's  
  - HAP contract expires after the Maturity Date, and  
  - current and average 3-year physical occupancy is greater than or equal to 95%. |
| 3 | The total of Items 3, 4, and 5 must equal the greater of | • the GPR including any permitted HAP contract rent increases multiplied by the percentage difference between  
  - the trailing 3-month net rental collections (annualized), and  
  - trailing GPR excluding any HAP contract rent increases not in effect before the Mortgage Loan Origination Date; or  
• either  
  - 5% of GPR, including any permitted HAP contract rent increases, or  
  - 3% of GPR, including any permitted HAP contract rent increases, if:  
    • the Property is located in a Strong or Nationwide Market per Form 4660;  
    • for a Property without a HAP contract, the actual rents for restricted units are at least 10% below comparable market rents; and  
    • the economic vacancy (i.e., the total of Items 3, 4, and 5) is supported by current and 3 years of historical economic vacancy data. |
| 4 | You must assess the NRI, including any declines, and make adjustments per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis. |

**CALCULATION OF OTHER INCOME**
# REQUIRED UNDERWRITTEN NCF
## (MULTIFAMILY AFFORDABLE PROPERTY)

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

5 If premiums or corporate premiums are applicable for a particular MAH Property, inclusion of premium income is permitted consistent with Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.

## CALCULATION OF COMMERCIAL INCOME

| 7    | PLUS     | Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable). |
| 8    | MINUS    | 10% of the actual commercial income.³ |

6 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.

| 9    | PLUS     | Laundry and vending, parking, and all other income per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis. |

EQUALS EFFECTIVE GROSS INCOME (EGI)

## CALCULATION OF OPERATING EXPENSES
<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 10   | MINUS    | Line-by-line stabilized operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by lease-ups, rehabilitation, or other short-term positive or negative factors. Non-recurring, extraordinary operating expenses must not be included.  
You must assess:  
• the past operating history;  
• the appraisers expense analysis;  
• all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and  
• the Borrowers budget (in the case of an acquisition).  
You must analyze historical operations at the Property and apply an appropriate increase over the prior years operations in determining an estimate. |
| 11   | MINUS    | Property management fee equal to the greatest of:  
• 4% of EGI;  
• actual property management fee (exclude any portion of a non-arms-length property management fee that is subordinated to the Mortgage Loan); or  
• market property management fee. |

7 Minimum management fee may be 3.5% of EGI (rather than 4% of EGI) if the:  
• underwritten management fee is at least $300 per unit;  
• actual management fee is equal to or less than the underwritten management fee; and  
• market management fees support the underwritten management fee for similarly sized MAH properties.

If the MAH Property is located in a Strong Market or Eligible MSA and the Mortgage Loan’s original UPB is greater than $6 million, the minimum management fee may be the greatest of  
• 2.5%,  
• $300 per unit,  
• the actual management fee, or  
• market management fees for similarly sized MAH properties.
<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 12   | MINUS    | Real estate taxes based on the greatest of:  
• actual future tax bill(s) covering a full calendar year;  
• prior full years taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or  
• in California, the greater of the Mortgage Loan amount or the assessed value, multiplied by the millage rate, plus any special assessments.  
You must consider any automatic reassessment upon acquisition in the next 12-month period. |
| 12   | MINUS    | If the Property has real estate tax abatements, exemptions, deferrals, or payments in lieu of taxes (PILOTs), you may use a reduced real estate tax payment if they will:  
• be in effect at closing (or at conversion in the case of a Forward Commitment), per written documentation from the state or local tax assessor;  
• survive a foreclosure on the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, or deferral benefit as long as the rent, income, or other restrictions are maintained (i.e., it is tied to the Property and not the owner); and  
• if governed under the California Welfare Tax Exemption Program, meet the following:  
  - if a refinance, the Borrower must be in and remain in compliance with the California Welfare Tax Exemption program; or  
  - if an acquisition or a Transfer/Assumption where the Affiliate with Control of the Borrower (which is typically a non-profit entity), or the non-profit entity itself, is changing you must:  
    • escrow at least 6 months of full real estate taxes at closing which will be released after confirming that the California Welfare Tax Abatement is approved and in place at the Property;  
    • ensure that the Borrower has demonstrated experience with the California Welfare Tax Abatement Program; and  
    • ensure that the Borrower is and remains eligible for the California Welfare Tax Abatement Program. |
## REQUIRED UNDERWRITTEN NCF
(MULTIFAMILY AFFORDABLE PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 12   | MINUS    | If governed under the Florida affordable housing property exemption (per Section 196.1978(1) of the Florida Statutes),  

• for a refinance, the Borrower must initially be in compliance, and remain in compliance, with the Florida affordable housing property exemption; or  
• for an acquisition or a Transfer/Assumption, you must:  
  - confirm the Borrower applies to the county taxing authority within 60 days after the Mortgage Loan Origination Date;  
  - escrow full taxes until you confirm the Florida affordable housing property exemption is approved and in place at the Property; and  
  - after confirmation, refund the escrowed taxes to the Borrower.  

If the Property benefits from real estate tax abatements, exemptions, or deferrals that will not survive a Foreclosure Event, then you may use a reduced real estate tax payment only if:  

• upon reapplying for the original underwritten tax abatement or an alternative tax abatement, Fannie Mae or a subsequent Property owner would qualify for the tax abatement;  
• the rent or income restrictions at the Property are maintained; and  
• you have ensured that:  
  - if a qualified non-profit entity is required to participate in the ownership structure of the MAH Property in order to qualify for the tax abatement, exemption, or deferral, a sufficient number of qualified non-profits currently operate in the market (at least 3 for an MSA with a population of less than 1 million and at least 5 for an MSA with a population of 1 million or greater), and in the event of a foreclosure, could serve in the replacement ownership structure to qualify for the tax abatement, exemption, or deferral; and  
  - the original or alternative tax abatement, exemption, or deferral has  
    • been established in the state statutes,  
    • been in effect for at least 10 years, and  
    • the Lender conducted all appropriate due diligence and confirmed that there is no material risk that the tax abatement, exemption, or deferral legislation will be repealed or revised in a manner that would affect the Property's ability to continue to qualify for the tax abatement, exemption, or deferral. |
### REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 continued</td>
<td>MINUS</td>
<td>If the timeframe for the real estate tax abatement, exemption, or deferral is shorter than the Mortgage Loan term, you must consider &lt;ul&gt;&lt;li&gt;a Bifurcated Mortgage Loan structure (i.e., 2 notes secured by a single first Lien Security Instrument),&lt;/li&gt;&lt;li&gt;an amortization schedule that accommodates the elimination of the abatement, or&lt;/li&gt;&lt;li&gt;providing clear justification and support in the refinance analysis.&lt;/li&gt;&lt;/ul&gt; For a Property with a tax abatement, the Modifications to Multifamily Loan and Security Agreement (Tax Abatement or Exemption) (Form 6251) must be executed even if you do not underwrite the tax abatement.</td>
</tr>
<tr>
<td>13</td>
<td>MINUS</td>
<td>Insurance equal to: &lt;ul&gt;&lt;li&gt;the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or&lt;/li&gt;&lt;li&gt;110% of the current expense, for insurance policies with a remaining term of less than 6 months.&lt;/li&gt;&lt;/ul&gt;</td>
</tr>
<tr>
<td>14</td>
<td>MINUS</td>
<td>Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.</td>
</tr>
<tr>
<td></td>
<td>EQUALS</td>
<td>UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)</td>
</tr>
<tr>
<td>15</td>
<td>MINUS</td>
<td>Replacement Reserve expense per Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF).</td>
</tr>
<tr>
<td></td>
<td>EQUALS</td>
<td>UNDERWRITTEN NCF</td>
</tr>
</tbody>
</table>

### 703.02 Underwriting

**703.02A Not-for-Profit (IRC §501[c][3]) Borrower may be a Multi-Asset Borrower**

**Requirements**

Although a single-asset entity is preferred, a not-for-profit Borrower may be a multi-asset entity.

If the not-for-profit Borrower is a multi-asset Borrower, you must analyze the Borrower's other assets and general financial condition per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302: Borrower Organizational Structure.
703.02B   Appraised Value and Underwriting Value

☑ Requirements

In addition to the Appraisal requirements in Part II, Chapter 2: Valuation and Income, Section 201.02: Appraisal, you must:

- Include 2 separate opinions of the Appraised Value based on:
  - Restricted Value from the Affordable Regulatory Agreement, using
    - comparable multifamily rental properties,
    - the Property’s submarket,
    - properties with similar rent or income restrictions, and
    - any tax abatements or exemptions.
  - Unrestricted Value from the Property’s income and expenses without the Affordable Regulatory Agreement (e.g., market rents, occupancy, and operating expenses), using
    - comparable multifamily market rate rental properties,
    - the Property’s submarket, and
    - full taxes if rental income restrictions are required by a tax abatement or exemption.

- Ensure that each Appraised Value is based on a market cap rate without any upward or downward adjustment for:
  - special financing (other than adjusted cap rates for Credit Enhancement Mortgage Loans); or
  - tax credit benefits.

- Determine the appropriate Appraised Value for the Underwriting Value per Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation.

703.02C   Market Study

☑ Requirements

If the Property is subject to a HAP contract that will expire before the Mortgage Loan Maturity Date, you must include a market study (which can be part of the Appraisal) that:

- is prepared by a qualified real estate professional; and
- identifies the absorption rate, lease-up period, and rent level for
comparable market rate rental properties in the submarket.

### 703.02D Affordable Regulatory Agreement Restrictions

**Guidance**

To underwrite the Mortgage Loan as an MAH Property, the Affordable Regulatory Agreement restrictions should remain in effect for the term of the Mortgage Loan.

**Requirements**

When the Affordable Regulatory Agreement restrictions have 3 or more years remaining but will expire before the Mortgage Loan Maturity Date, you must provide support to underwrite to the MAH Preservation standards in the Form 4660, taking into account factors such as:

- restricted rents below market rate rents;
- the Property’s history of operating as an MAH Property;
- the Borrower’s history and experience owning and operating MAH Properties;
- the Borrower’s intention to renew the Affordable Regulatory Agreement;
- the amount of time between the Maturity Date and when the Affordable Regulatory Agreement restrictions expire;
- market strength; and
- how the Property compares to comparable market rate properties in terms of occupancy, condition, and amenities if the Borrower intends to convert the Property to market rate rents and if no rent advantage exists.

See Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 702.01: Eligible Characteristics and Underwriting regarding self-imposed restrictions.

### 703.02E 35-Year Amortization

**Requirements**

If you use a 35-year amortization term, the:

- Property must have LIHTCs with at least 8 years remaining in the initial 15-year compliance period; and
- minimum MAH Mortgage Loan term must equal the greater of the remaining initial compliance period, or
LIHTC Income Averaging

**Guidance**

When a Sponsor elects LIHTC Income Averaging for a Property with new LIHTCs, you should consider:

- Will LIHTC Income Averaging impact other non-LIHTC regulatory agreements?
- Is LIHTC Income Averaging compatible with other funding and subsidy source requirements, including any project-based HAP contract?
- Has LIHTC Income Averaging been approved by the state agency, and LIHTC investor or syndicator?
- Will the on-site Property management staff have sufficient experience?
- Will the unit mix be impacted, including:
  - unit parity,
  - multi-building election,
  - floating units, and
  - market rate units?
- What is the rent advantage, especially for units above 60% of AMI?
- For a Forward Commitment,
  - is the Property not a resyndication of a property previously developed or preserved using LIHTCs and subject to an existing extended use agreement, or
  - if the Property is a resyndication, have you confirmed the property has completed its extended use period?
- Does the market study include capture rates for each unit designation supporting LIHTC Income Averaging?

**Requirements**

You must identify and mitigate any risks from electing LIHTC Income Averaging.
Requirements

For any MAH Property with new LIHTCs, you must ensure at least 20% of the aggregate LIHTC equity that the LIHTC investor or syndicator must contribute into the limited partnership is received on or before the Mortgage Loan Origination Date.

703.02H Developer Fees

Guidance

You should analyze the development budget, including the

- developer fee due the Sponsor or any Affiliate, and
- any deferred developer fee (i.e., the portion of the developer fee shown as a source in the sources and uses statement).

If the deferred developer fee is greater than 50% of the total developer fee, you should confirm there are sufficient

- hard and soft contingency budgets, and
- projected surplus cash flows to repay the deferred developer fee within the initial compliance period.

703.02I Rent-Stabilized Units

Guidance

Refer to Part II, Chapter 2: Valuation and Income, Section 205: Rent-Stabilized Properties regarding rent-stabilized MAH Property units.

Section 704 Subordinate Financing

704.01 Interest Rate and Payments

Requirements

You must ensure that the subordinate loan has:

- a fixed rate;
- interest payable on a current basis; and
- no deferrals, except as described in this Section.

704.02 Loan Term
Requirements

A fully amortizing subordinate loan may mature at any time regardless of the:

- Maturity Date of the Mortgage Loan or any Pre-Existing Mortgage Loans; or
- expiration date of the Fannie Mae Credit Enhancement Instrument.

You must ensure that any subordinate loan that does not fully amortize or is not fully forgiven by the loan document terms, including any Soft Financing, does not mature before 90 days after the earlier of the:

- final Maturity Date of the Mortgage Loan or any Pre-Existing Mortgage Loans; or
- expiration date of the Fannie Mae Credit Enhancement Instrument for the Mortgage Loan or any Pre-Existing Mortgage Loans.

704.03 Collateral

Guidance

You may secure the subordinate loan with a Lien on the Property if:

- the Lien is subordinated to the Lien of the Security Instrument per Sections 704.08 - 704.11 of this Chapter; and
- the granting clause of the security instrument creating the subordinate Lien is the same as that of the Security Instrument.

704.04 Credit Support

Requirements

You must ensure that the Mortgage Loan secured by the MAH Property obtains the same credit support and collateral as any subordinate loan, including any

- recourse to the Borrower or third-party Guarantor, or
- additional collateral.

704.05 Soft Financing

Requirements

To be considered Soft Financing, the subordinate loan must comply with all of the following:
<table>
<thead>
<tr>
<th>Term</th>
<th>For All Soft Financing...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments</td>
<td>• Any payments due must be payable only from the surplus NCF remaining after all other payments (due and owing) are made on the Mortgage Loan or any Pre-Existing Mortgage Loans.</td>
</tr>
<tr>
<td></td>
<td>• No more than 75% of the surplus NCF must be available for payments on all Soft Financing unless the note is payable to the Sponsor or an Affiliate, or the:</td>
</tr>
<tr>
<td></td>
<td>- Property has LIHTCs;</td>
</tr>
<tr>
<td></td>
<td>- note is payable to the Sponsor; and</td>
</tr>
<tr>
<td></td>
<td>- the Sponsor or an Affiliate owns or controls more than 50% of the interest in the Borrower or the Borrower's general partner or managing member.</td>
</tr>
<tr>
<td>Events of Default</td>
<td>• No action or condition results in an event of default unless the Borrower fails to</td>
</tr>
<tr>
<td></td>
<td>- comply with required affordability restrictions, or</td>
</tr>
<tr>
<td></td>
<td>- pay P&amp;I when surplus NCF is available.</td>
</tr>
<tr>
<td></td>
<td>• Failure to pay P&amp;I due to lack of surplus NCF must not be an event of default.</td>
</tr>
<tr>
<td>Remedies</td>
<td>Acceleration must only be for noncompliance with required affordability restrictions.</td>
</tr>
<tr>
<td></td>
<td>For example, for loans subject to the Tax Credit Exchange Program per Section 1602 of the American Recovery and Reinvestment Tax Act of 2009, repayment must only be required for noncompliance with required affordability restrictions.</td>
</tr>
<tr>
<td>Subordination</td>
<td>Subordination must comply with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.08: Subordination Agreement.</td>
</tr>
</tbody>
</table>

**Guidance**

Soft Financing may have:

- a nominal interest rate (e.g., 1% or 2%);
- interest that does not accrue;
principal payments that do not fully amortize the subordinate loan over its term; or

- a loan term significantly longer than the Mortgage Loan term, with the subordinate loan either
  - being forgiven over time or at its maturity date, or
  - due only upon the sale of the Property.

### 704.06 Subordinate Lender

**Requirements**

<table>
<thead>
<tr>
<th>If the Lender type is...</th>
<th>Then...</th>
</tr>
</thead>
</table>
| Public / Quasi-Public / Not-for-Profit Lender | A subordinate loan provided by a public, quasi-public, or not-for-profit Lender may
  - be Soft Financing, or
  - require mandatory payments of P&I, or interest-only. |
| Private Lender | You must ensure that any subordinate financing originated by a private, for-profit Lender is Soft Financing per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.05: Soft Financing. |

### 704.07 Developer’s Notes

**Requirements**

You must ensure any developer note or advance due the Sponsor or an Affiliate is Soft Financing per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.05: Soft Financing.

### 704.08 Subordination Agreement

**Requirements**

You, the Borrower, and the subordinate Lender must enter into either:

- Fannie Mae form Subordination Agreement (Affordable) (Form 6456), if the subordinate Lender is a government entity; or
- Fannie Mae form Subordination Agreement (Conventional) (Form 6414),
if the subordinate Lender is not a government entity.

704.09  Lien Priority and Title Insurance Policy

☑ Requirements

You must ensure that:

- The Lien securing the subordinate loan remains, at all times, subordinate to the Lien of the Security Instrument securing the Pre-Existing Mortgage Loans or Credit Enhancement Mortgage Loan, including any refinancing of the Pre-Existing Mortgage Loans.
- The Subordination Agreement is recorded in the land records immediately after the subordinate security instrument is recorded.
- The title insurance policy reflects the recordation of the Subordination Agreement.

704.10  Form of Subordinate Loan Documents

☑ Requirements

You must confirm that the subordinate loan documents:

- comply with this Chapter;
- include the specific provisions required by the Subordination Agreement;
- do not require the Borrower to maximize rents at the Property (even if the Property is subject to an Affordable Regulatory Agreement); and
- are not in the form of subordinate Bonds.

704.11  Prepayment

☑ Requirements

The Borrower may not prepay or redeem the subordinate loan without Fannie Mae’s consent.

704.12  LIHTC Equity Bridge Loans

☑ Requirements

The LIHTC equity bridge lender must not be on ACheck, and the LIHTC equity bridge loan must be fully repaid with the final LIHTC equity payment associated with the Property’s placed-in-service date. If the LIHTC equity
If the bridge loan is not repaid with the final LIHTC equity installment, the unpaid portion must be Soft Financing per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.05: Soft Financing.

<table>
<thead>
<tr>
<th>LIHTC Equity Bridge Loan</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term</td>
<td>Maximum of 24 months.</td>
</tr>
<tr>
<td>Repayment</td>
<td>Must be completely repaid on or before the final LIHTC equity payment associated with the Property’s placed-in-service date.</td>
</tr>
<tr>
<td>Amount</td>
<td>Maximum of 80% of aggregate LIHTC equity contribution.</td>
</tr>
<tr>
<td>Funding Conditions</td>
<td>No performance hurdles or Property performance benchmarks tied to bridge loan payments.</td>
</tr>
</tbody>
</table>
| Note                     | • Non-recourse to Borrower.  
                          | • Fixed or variable rate. |
| Guaranty (Repayment or Completion) | Must be subordinated to any Guaranty in favor of Fannie Mae. |

<table>
<thead>
<tr>
<th>Bridge Loan Collateral Types (multiple types allowed)</th>
<th>Bridge Lender Affiliated with You or LIHTC Investor</th>
<th>Bridge Lender Unaffiliated with You, LIHTC Investor, or Sponsor</th>
<th>Bridge Lender Affiliated with Sponsor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assignment of Rights to Capital Contribution from LIHTC Equity Investor</td>
<td>Acceptable</td>
<td>Acceptable</td>
<td>Unacceptable</td>
</tr>
<tr>
<td>Assignment of Development Fee</td>
<td>Acceptable</td>
<td>Acceptable</td>
<td>Acceptable</td>
</tr>
<tr>
<td>Subordinate Security Instrument</td>
<td>Unacceptable</td>
<td>Unacceptable</td>
<td>Unacceptable</td>
</tr>
</tbody>
</table>
### Bridge Loan Collateral Types (multiple types allowed)

<table>
<thead>
<tr>
<th>Bridge Loan Collateral Types</th>
<th>Bridge Lender Affiliated with You or LIHTC Investor</th>
<th>Bridge Lender Unaffiliated with You, LIHTC Investor, or Sponsor</th>
<th>Bridge Lender Affiliated with Sponsor</th>
</tr>
</thead>
</table>
| Assignment of General or Limited Partnership Interests | Acceptable if Bridge Lender has LIHTC experience | Acceptable if Bridge Lender has LIHTC experience | • Acceptable for general partnership Interests  
• Unacceptable for limited partnership Interests |
| Subordination Agreement | Conventional Form | Conventional Form | Affordable Form |

### Section 705

**Restrictive Covenants and Affordable Regulatory Agreements**

**Requirements**

For MAH Properties and non-MAH Properties, the Affordable Regulatory Agreement, except for a HUD Use Agreement, must be subordinated to the Lien of the Security Instrument if the agreement:

- grants rights, remedies, or powers similar to that of a secured creditor to any aggrieved party;
- impairs the Lien rights or priority of the Lien of the Security Instrument;
- contains any Borrower obligations other than the affordability restrictions;
- contains any rights or remedies to enforce the affordability restrictions other than specific performance or injunctive relief; or
- does not terminate upon Mortgage Loan foreclosure.

To subordinate the Affordable Regulatory Agreement to the Security Instrument Lien:

- use an approved Subordination Agreement, or
- for a subordinate loan, use Subordination Agreement (Affordable) (Form 6456).

**Guidance**

The rights, remedies, and powers of a secured creditor would typically
include:
- the ability to appoint a receiver;
- the right to collect rents directly from the mortgaged property;
- the right to take possession of the mortgaged property;
- limitations on transferring title to you or to a subsequent transferee by foreclosure or deed in lieu;
- no requirement to give you notice of violations of or amendments to the Affordable Regulatory Agreement; and
- the ability to remove or replace the Property manager without your prior consent.

Section 706  ROAR Loan

706.01  Generally

☑ Requirements

You must ensure any ROAR Loan:
- is a Mortgage Loan or Credit Enhancement Mortgage Loan using a Credit Enhancement Instrument;
- has a fixed rate;
- has a minimum Mortgage Loan amount of $5 million; and
- is secured by an MAH Property that:
  - currently has Stabilized Residential Occupancy, but will likely experience tenant displacement significant enough to lower the Underwritten DSCR, calculated using the Gross Note Rate, below the required DSCR set forth in Form 4660; and
  - will undergo repairs, replacements, or improvements costing $10,000 per unit or more (based on the total number of residential units at the Property), or qualifies as a Moderate Rehabilitation Property.

706.02  Timing

☑ Requirements

Within 18 months after the Mortgage Loan Origination Date
- the ROAR Work must be completed, and
- Restabilized Residential Occupancy must be achieved.
706.03 General Underwriting

 Guidance

In addition to complying with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans, you should also review and evaluate:

- the reasonableness of the estimated cost of the ROAR Work and the completion schedule;
- whether the ROAR Work can be completed and the Restabilized Residential Occupancy achieved within 18 months after the Mortgage Loan Origination Date;
- the Borrower’s experience in developing or rehabilitating properties similar to the ROAR Property;
- the tenant relocation plan, including budget and schedule;
- the ROAR Work budget, including monthly sources and uses during the rehabilitation period;
- any construction risks;
- the LIHTC investors' financial strength, experience, and reputation; and
- the projected rent levels relative to market rents.

706.04 Additional Underwriting and Loan Documents

Requirements

You must underwrite the ROAR Loan per the following table.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwritten NCF</td>
<td>GPR must comply with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703.01: Underwritten NCF; Underwritten NCF can be based on the Restabilized Residential Occupancy and normalized operating expenses achievable within 18 months after the Mortgage Loan Origination Date.</td>
</tr>
<tr>
<td>Appraisal</td>
<td>The Appraisal must include an opinion of the value of the Property on both an as is and an as completed basis that incorporates the ROAR Work to be completed after the Mortgage Loan Origination Date.</td>
</tr>
<tr>
<td>Topic</td>
<td>Description</td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Occupancy During ROAR Work</td>
<td>Physical Occupancy: minimum of 50%; and Economic Occupancy: minimum of 50%.</td>
</tr>
</tbody>
</table>
| Minimum DSCR During ROAR Work                  | Using the ROAR Stressed NCF, actual fixed interest rate, and maximum loan amount based on the as completed value  
• 0.75 on an amortizing basis, or  
• 1.00 on an interest-only basis, if applicable. |
| Rehabilitation Reserve Agreement               | Required.                                                                                                                                                                                                   |
| Key Principal Guaranties                       | The Key Principal must execute a  
• Completion Guaranty (Form 6018), and  
• an operating deficit guaranty.                                                                                                                   |
| Letter of Credit                               | Any Letter of Credit must:  
• comply with Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit; and  
• equal at least 125% of the difference between the maximum Mortgage Loan amount based on  
  - the as completed value, and  
  - the as is value.                                                                        |
| Additional Credit Support                      | May be required.                                                                                                                                                                                           |
| Underwriting Fee                               | You must:  
• charge the Borrower an underwriting fee equal 3 basis points of the Mortgage Loan amount; and  
• pay that amount to Fannie Mae.                                                             |

**Section 707**  
HAP Contract Properties

**707.01** Properties with Both HAP Contracts and LIHTC Units

☑️ Requirements
For a Mortgage Loan secured by an MAH Property or a Credit Enhancement Mortgage Loan, if the Property has both HAP contracts and LIHTC units, you must underwrite the Mortgage Loan using 1 of the following options.

<table>
<thead>
<tr>
<th>Choice</th>
<th>Requirements</th>
</tr>
</thead>
</table>
| Option 1 | Underwrite the rents from HAP contract units using the lowest of  
  • market rents,  
  • HAP contract rents, or  
  • applicable LIHTC rents.  
  
  Applicable LIHTC rents are the lower of  
  • maximum allowable LIHTC rents minus utility allowances, or  
  • actual rents in place for occupied units subject to a LIHTC Affordable Regulatory Agreement. |
| Option 2 | Underwrite the rents from HAP contract units using the additional income above the LIHTC rents (LIHTC overage) if:  
  • at least 20% of the Property's units are subject to a project-based HAP contract;  
  • the HAP contract rents are less than or equal to market rents;  
  • the weighted average LIHTC unit rents are least 10% below market;  
  • the MAH Property is located in a market or submarket with 90% or greater economic occupancy, both for market rate and MAH Properties; and  
  • the Sponsor has experience and success owning and operating properties with HAP contracts.  
  
  If the HAP contract expires before the Mortgage Loan Maturity Date, you must ensure the Property's Underwritten DSCR is greater than or equal to  
  • 1.05 based on the LIHTC rents, and  
  • 1.10 based on the LIHTC rents after the HAP contract expires. |
**707.02 Restabilization Reserve**

**Requirements**

For all Tier 2 and Tier 3 Mortgage Loans, you must establish a Restabilization Reserve for an MAH Property that has a HAP contract if the HAP contract term (excluding any annual or incremental government appropriation conditions) expires before the Mortgage Loan Maturity Date.

The Restabilization Reserve must:

- equal the monthly Mortgage Loan P&I, multiplied by the greater of
  - 6 months, or
  - the lease-up period determined by the market study per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703.02C: Market Study; and

- remain in place until
  - the Property achieves underwritten occupancy for 90 days at market rate rents, or
  - the HAP contract is renewed with an expiration date after the Mortgage Loan Maturity Date.

You may eliminate the Restabilization Reserve if the:

- weighted average LIHTC unit rents are at least 10% below market;
- MAH Property is located in a market or submarket with 90% or greater economic occupancy, both for market rate and MAH Properties; and
- Sponsor has experience and success owning and operating properties with HAP contracts.

**707.03 HAP Contract Review Sheet**

**Requirements**

Before you Deliver the Mortgage Loan, you must:

- complete the Section 8 Housing Assistance Payments (HAP) Contract Review Sheet and Certification (Form 6422); and
- confirm that all conditions for approval are met.

**Section 708 Refinancing Section 236 Properties – IRP is Maintained**
Requirements

For Fannie Mae to consider the cash flow from an IRP, the Borrower must decouple the IRP from the existing Section 236 note and mortgage by

- prepaying the Section 236 Loan, and
- having the IRP transferred to a new Mortgage Loan (which will be then considered a Section 236 Loan for purposes of continuing the IRP).

### 708.01 No Additional Proceeds

Requirements

If the Borrower is not seeking additional proceeds based on the IRP, you must exclude the amount of the IRP from the LTV and Underwritten DSCR.

### 708.02 Additional Proceeds from Mortgage Loan

Requirements

If the Borrower is seeking additional proceeds from the Mortgage Loan based on the IRP, then you must ensure that:

- The Mortgage Loan has equal monthly payments of P&I.
- The portion of the Mortgage Loan sized based on the Underwritten NCF meets Fannie Mae's LTV and Underwritten DSCR requirements without considering the IRP cash flow.
- The portion of the Mortgage Loan sized based on the IRP cash flow has an Underwritten DSCR of at least 1.00.
- The financing structure reflects the remaining term of the IRP through a bifurcated note or amortization structure.

In a Forward Commitment transaction, if the IRP is decoupled from the original Section 236 Loan, you do not need to ensure principal amortization during the construction phase.

### 708.03 Additional Proceeds from Other Sources

Requirements

If the Borrower is seeking additional proceeds from sources other than the Mortgage Loan based on the IRP, you must:

- factor the debt into the Property’s overall LTV; and
- comply with Part III, Chapter 7: Multifamily Affordable Housing
Section 709 LIHTC Properties – Lender Equity Interest

Requirements

Fannie Mae will only purchase a Mortgage Loan secured by a LIHTC Property in which you are an equity investor (directly or indirectly) in the Borrower if the following conditions are met:

- Your equity interest in the Borrower is solely for obtaining the LIHTCs in the Property, and you have no
  - management authority for the Property, or
  - equity interest (other than the LIHTCs) in
    - the Borrower,
    - any Key Principal,
    - any Person holding a Controlling Interest in the Borrower or Key Principal,
    - any Principal, or
    - any Guarantor.

- You and the equity syndicator are organized to ensure independent analysis and decision making occurs in the
  - underwriting and approval of the debt,
  - equity investments, and
  - servicing of the Mortgage Loan.

- Your underwriting submission includes:
  - a description of the relationship among the
    - Lender,
    - Borrower, and
    - applicable Lender Affiliate; and
  - an organizational chart or diagram showing:
    - the complete Borrower ownership structure, including any Lender or Lender Affiliate equity interest; and
    - each entity’s ownership interest.
Section 710  Transactions with Fannie Mae Debt and Equity Interests

### 710.01 Transactions Funded with Tax-Exempt Bond Proceeds

**Requirements**

If a Mortgage Loan will be funded with tax-exempt bond proceeds and the Property securing the Mortgage Loan qualifies for LIHTCs, you must confirm:

- If Fannie Mae owns or plans to acquire a direct or indirect equity interest in the Borrower, it does not own or intend to acquire an interest in the tax-exempt Bonds.
- If Fannie Mae owns or plans to acquire an interest in the tax-exempt Bonds, it does not own or intend to acquire a direct or indirect equity interest in the Borrower.

### 710.02 Fannie Mae Credit-Enhanced Tax-Exempt Bond Issuance

**Requirements**

You must confirm that if Fannie Mae credit enhances tax-exempt Bonds issued to fund a Mortgage Loan, it does not also own or intend to acquire a direct equity interest in the Borrower.

If Fannie Mae owns or intends to acquire an indirect equity interest in the Borrower through a fund, you must confirm:

- Fannie Mae's indirect equity interest in the Borrower is less than 50%;
- in the case of a LIHTC transaction:
  - the IRS documentation filed in connection with the Bond issuance shows that none of the Bond proceeds were applied to pay any portion of Fannie Mae’s credit enhancement fee;
  - the Bond issuer and the Borrower have either
    - entered into a LIHTC agreement that acknowledges Fannie Mae’s equity interest, or
    - consented in writing to Fannie Mae’s equity interest; and
  - any required notices to the Borrower and the issuer under a LIHTC agreement have been provided; and
- in the case of a non-LIHTC transaction, the issuer and the Borrower have consented in writing to Fannie Mae’s equity interest.

Section 711  FHA Risk Sharing
711.01 Description

 Guidance

 Fannie Mae and the HUD have a risk sharing agreement to share risk on Mortgage Loans for certain MAH transactions. HUD's risk sharing is in the form of mortgage insurance from FHA. HUD takes 50% of the risk of loss, and the remaining 50% of the loss is shared by you and Fannie Mae.

711.02 Eligibility

711.02A Borrowers, Key Principals, Guarantors, and Principals

 Requirements

 You must ensure that the Borrower (and each Key Principal, Guarantor, and Principal) is not on the most current “List of Parties Excluded from Federal Procurement or Nonprocurement Programs”.

711.02B Generally

 Requirements

 You must ensure:

 ■ All FHA Risk Sharing Mortgage Loans are fixed rate with no interest-only period.
 ■ The minimum Mortgage Loan term is 15 years.
 ■ The Property has an affordability restriction where
   ● at least 20% of the units are rent-restricted and occupied by families with incomes no more than 50% of AMI as adjusted for family size, or
   ● at least 40% (25% in New York City) of the units are rent-restricted and occupied by families with incomes no more than 60% of AMI as adjusted for family size.
 ■ The residential unit's gross rent is restricted to no more than 30% of the unit's Imputed Income Limitation per Section 42 of the Internal Revenue Code.
 ■ Rent, income, and/or occupancy restrictions are in effect for at least the term of the Mortgage Loan. For MAH Properties with remaining affordability restrictions of less than 18 years, the affordability restrictions will be considered senior to the Lien of the Mortgage Loan when enforcing restrictions.
The Property is not located in:

- a 500-year floodplain and likely occupied by tenants who may not be sufficiently mobile to avoid injury or death during floods or storms;
- a Federal Emergency Management Agency-mapped Special Flood Hazard Area 100-year floodplain (except where no buildings or Improvements other than minor grubbing) will be in the floodplain and the floodplain area will be permanently dedicated to non-development;
- the Coastal Barrier Resources System per the Coastal Barrier Resources Act, 16.U.S.C.3501; and
- a Runway Clear Zone (at a civil airport) or Clear Zone (at a military airfield) if the Property is newly constructed or substantially rehabilitated.

711.02C Cash Out

There is no limit on the amount of cash out in an FHA Risk Sharing transaction.

711.03 Mortgage Insurance Premium

Your pricing for an FHA Risk Sharing Mortgage Loan must include a sufficient amount to pay the mortgage insurance premium due to FHA.

Fannie Mae will make this FHA premium payment on or before its due date.

711.04 Subsidy Layering Review

You must ensure the Borrower obtains a subsidy layering review when required by federal laws. FHA Risk Sharing Mortgage Loans are a source of federal government assistance.

After the subsidy layering review is complete, the applicable reviewing office will issue a certification to the Borrower stating the total amount of
governmental assistance is not more than is necessary to provide affordable housing after taking into account other government assistance. You must receive the certification before

- Rate Lock, or
- obtaining a Commitment for a tax-exempt Bond transaction.

711.05 Lender FHA Risk Sharing Reserve and Loss Sharing Modifications

Operating Procedures

If a Mortgage Loan was approved for FHA Risk Sharing, you must indicate an "FHA risk sharing" Mortgage Loan Type on the Mortgage Loan Certificate (Form 6505).
Chapter 8  Cooperative Properties

Section 801  Description

- **Requirements**

A Cooperative Property is a multifamily residential property owned by a Cooperative Organization.

Section 802  Eligible Mortgage Loans

- **Requirements**

Fannie Mae will only purchase a Cooperative Mortgage Loan if each shareholder or other equity owner in the Cooperative Organization is granted the right to occupy a unit in the Property under a proprietary lease or other occupancy agreement.

You must:

- Examine the organizational documents of the Cooperative Organization.
- Ensure that the terms of these documents allow you to originate a Loan secured by the Property in compliance with the Guide.
- Review the composition and experience of the Cooperative Organization’s Board of Directors or managers.

802.01  Basic Conditions

- **Requirements**

You must ensure for all the following:

- The Mortgage Loan has a fixed rate.
- Any commercial lease is determined to be a Material Commercial Lease based on 5% or more of total gross income calculated on a Cooperative Market Rental Basis.
- The Property is located in a Cooperative Property Eligible Market per Form 4660.
- The Property has an overall condition of 2 or better, as shown on the Comprehensive Assessment Addendum tab of the MBA Standard Inspection Form.

802.02  Financial Conditions
Requirements

You must ensure all of the following:

- You have reviewed at least 3 years of the Property’s financial operations.
- The Property’s financial operations achieved at least a 0.90 DSCR on an Actual Cooperative Property Basis for 2 of the previous 3 years.
- The Board of Directors or managers of the Cooperative Organization approve any increase in the Cooperative Maintenance Fee prior to closing; and any scheduled annual increase cannot exceed 10%.
- A Cooperative Property Sponsor may not own interests to occupy or lease more than 40% of the units in the Cooperative Property, unless the following criteria are met:
  - You deem the financial strength, experience, qualifications, character, and credit history of the Cooperative Property Sponsor acceptable, per the applicable provisions for Key Principals in Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals or Part III, Chapter 9: Small Mortgage Loans.
  - The Cooperative Organization consistently demonstrates sound financial operations and market acceptability.
  - There is no on-going litigation between the Cooperative Organization and the Cooperative Property Sponsor.
  - The aggregate annual rental income from the Cooperative Property Sponsor-owned units is greater than the aggregate annual Cooperative Maintenance Fees on those units.

802.03 Property Management Conditions

Requirements

You must ensure all of the following:

- Except for Small Mortgage Loans, the Property must be managed by a professional property management firm that currently manages:
  - at least 3 other Cooperative Properties in the same market as the Property;
  - a minimum of 350 Cooperative Property units in the aggregate; and
  - another Cooperative Property of similar size to the Property.
- For Small Mortgage Loans, a Property with more than 25 units must be managed by a property management firm with at least 3 years of experience managing a Cooperative Property of similar size.
The Borrower may manage a Property securing a Small Mortgage Loan with 25 units or less.

### 802.04 Other Considerations

**Guidance**

A Cooperative Mortgage Loan does not have to comply with the following:

- identification of a Key Principal or Principal and the applicable related analysis and obligations per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, or Part III, Chapter 9: Small Mortgage Loans;

- Ground Lease Rents per Part II, Chapter 1: Attributes and Characteristics, Section 104.02: Ground Lease Rents;

- Minimum Occupancy per Part II, Chapter 1: Attributes and Characteristics, Section 105: Minimum Occupancy;

- Occupancy per Part III, Chapter 9: Small Mortgage Loans, Section 903: Occupancy; and

- Property Management per Part III, Chapter 9: Small Mortgage Loans, Section 906: Property Management.

### 803 Underwriting

#### 803.01 Financial Operation

**Requirements**

As part of your underwriting analysis, you must:

- Examine the year-to-date operational budget.

- Collect, review, and analyze audited financial/operating statements for the last 3 years of operations.

- Ensure that the average Cooperative Maintenance Fee Accounts Receivable for the last 3 years is less than 3% of the annual Cooperative Maintenance Fees.

- Ensure that the Cooperative Operating Reserve at closing is at least 10% of the annual Cooperative Maintenance Fees.

#### 803.02 Property Valuation
Requirements

You must obtain an Appraisal per Part II, Chapter 2: Valuation and Income that provides a value of the Cooperative Property on a Cooperative Market Rental Basis for determining the LTV Ratio per Form 4660.

Guidance

You may obtain an Appraisal per Part II, Chapter 2: Valuation and Income that provides a value of the Cooperative Property on a Cooperative Gross Sellout Value basis.

803.03 Subordinate Debt

Requirements

You must ensure that any existing debt secured by a Lien on a Cooperative Property complies with Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402: Supplemental Mortgage Loans. You must also calculate the

- Underwritten DSCR per Part III, Chapter 8: Cooperative Properties, Section 804.02: Cooperative Market Rental Basis DSCR (Underwritten DSCR), and
- Actual Cooperative DSCR per Part III, Chapter 8: Cooperative Properties, Section 804.04: Actual Cooperative Property DSCR.

Section 804 Income Analysis

804.01 Cooperative Market Rental Basis NCF (Underwritten NCF)

Requirements

You must review the projected operations of the Cooperative Property on a Cooperative Market Rental Basis (as reflected in the Appraisal).

You must ensure the Cooperative Market Rental Basis NCF includes the minimum economic vacancy and Replacement Reserve expense per the applicable Underwritten NCF calculation in Part II, Chapter 2: Valuation and Income or Part III, Chapter 9: Small Mortgage Loans.

804.02 Cooperative Market Rental Basis DSCR (Underwritten DSCR)

Requirements

You must calculate Underwritten DSCR per the following table.
### UNDERWRITTEN DSCR
(COOPERATIVE PROPERTIES – COOPERATIVE MARKET RENTAL BASIS)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>Underwritten NCF as calculated on a Cooperative Market Rental Basis.</td>
</tr>
<tr>
<td>2</td>
<td>DIVIDED BY</td>
<td>Annual debt service for the Mortgage Loan amount.</td>
</tr>
</tbody>
</table>

You must base debt service on a level debt service payment, including amortization, and the greater of:

- the actual note rate, or
- the required Underwriting Interest Rate Floor per Form 4660.

If the Property has subordinate debt, the debt service must include P&I to cover the maximum principal amount of the outstanding subordinate debt.

---

### 804.03 Actual Cooperative Property NCF

**Requirements**

You must use the following table to calculate Actual Cooperative Property NCF.

#### REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>GROSS RENTAL INCOME current scheduled monthly Cooperative Maintenance Fees for all units (multiplied by 12).</td>
</tr>
</tbody>
</table>
### REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 2    | PLUS     | Income from Cooperative Organization-owned units equal to the lesser of  
  |         |  
  |       |           | • actual rents in place for occupied units, plus market rents for vacant units, or  
  |       |           | • an equivalent Cooperative Maintenance Fee based on similar units in the Property (multiplied by 12). |
| 3    | PLUS     | Proposed increase in annual Cooperative Maintenance Fee income. |
| 4    | MINUS    | Vacancy included at Fannie Mae's sole discretion for any Pre-Review Mortgage Loan. |

**EQUALS**

GROSS POTENTIAL RENT (GPR)

**CALCULATION OF OTHER INCOME**

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>PLUS</td>
<td>Actual other income (including any flip fees, sales fees, or any special assessments collected for operational expenses) as described in the applicable Underwritten NCF calculation detailed in Part II, Chapter 2: Valuation and Income, or Part III, Chapter 9: Small Mortgage Loans.</td>
</tr>
</tbody>
</table>

**CALCULATION OF COMMERCIAL INCOME**

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>PLUS</td>
<td>Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable).</td>
</tr>
<tr>
<td>7</td>
<td>PLUS</td>
<td>Actual income from STR units.</td>
</tr>
<tr>
<td>8</td>
<td>MINUS</td>
<td>Commercial income economic vacancy included at Fannie Mae's sole discretion for any Pre-Review Mortgage Loan. A 10% vacancy rate must be applied to any STR income.¹</td>
</tr>
</tbody>
</table>

¹ If net commercial income is greater than 20% of EGI on a Cooperative Market Rental Basis, then reduce to 20% of EGI on a Cooperative Market Rental Basis.

**EQUALS**

EFFECTIVE GROSS INCOME (EGI)

**CALCULATION OF OPERATING EXPENSES**
### REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 9    | MINUS    | Line-by-line stabilized operating expenses, including management fee and insurance. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by short-term positive or negative factors. Non-recurring, extraordinary expenses must not be included. **You must assess:**  
  • past operating history;  
  • market expenses;  
  • actual service contracts in place; and  
  • the Property's budget.  
  All expenses associated with STR should be underwritten in their respective expense line items. |
<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 10   | MINUS    | Real estate taxes based on the greatest of:  
  • actual future tax bill(s) covering a full calendar year;  
  • prior full years taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or  
  • in California, the greater of the assessed value or the Mortgage Loan amount, multiplied by the millage rate, plus any special assessments.  
  If the Property has real estate tax abatements, exemptions, or deferrals, they must:  
  • be in effect at closing, per written documentation from the state or local tax assessor; and  
  • survive a foreclosure of the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, or deferral benefit (e.g., it is tied to the operation of the Property and not the identity or structure of the owner).  
  If the timeframe for the real estate tax abatement, exemption, or deferral is shorter than the Mortgage Loan term, you must consider  
  • a Bifurcated Mortgage Loan structure (i.e., 2 notes secured by a single first Lien Security Instrument),  
  • an amortization schedule that accommodates the elimination of the abatement, or  
  • providing clear justification and support in the refinance analysis. |
### REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 11   | MINUS    | All other expenses as described in Underwritten NCF calculation detailed in the applicable Part II, Chapter 2: Valuation and Income, or Part III, Chapter 9: Small Mortgage Loans, except for property insurance and management fees. For STR:  
  • any taxes or fees imposed by the local jurisdiction; and  
  • if applicable, the difference in actual lease STR income and the Cooperative Maintenance Fee for similar units in the Property with a term of more than 30 days. For example, if actual lease STR income for a unit is $1,000 and the comparable Cooperative Maintenance Fee for that unit is $900, then deduct $1,200 ($1,000 - $900 = $100 X 12 months) as an other expense. |
|      | EQUALS   | UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI) |
| 12   | MINUS    | Replacement Reserve expense included at Fannie Mae's sole discretion for any Pre-Review Mortgage Loan. |
|      | EQUALS   | ACTUAL COOPERATIVE PROPERTY NET CASH FLOW (ACTUAL COOPERATIVE NCF) |

### 804.04 Actual Cooperative Property DSCR

**✅ Requirements**

You must calculate the Actual Cooperative Property DSCR per the following table.
### ACTUAL COOPERATIVE PROPERTY DSCR

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>Actual Cooperative NCF per Part III, Chapter 8: Cooperative Properties, Section 804.03: Actual Cooperative Property NCF.</td>
</tr>
</tbody>
</table>
| 2    | DIVIDED BY | Annual debt service for the Mortgage Loan amount.  
You must base debt service on a level debt service payment at the actual note rate, including amortization.  
Use interest-only payments only for a full-term interest-only Mortgage Loan.  
If the Property has subordinate debt, the debt service must include P&I to cover the actual UPB of the outstanding subordinate debt. Use interest-only payments only for full-term interest-only subordinate debt. |

---

**Section 805**  
**Limited Equity Cooperative Properties**

**☑ Requirements**

In addition to the rest of this Chapter, you must ensure that Limited Equity Cooperative Properties meet the following:

- Cooperative Maintenance Fees: You must ensure that:
  - monthly Cooperative Maintenance Fees are not more than 90% of comparable unit market rents; and  
  - if there are restrictions from the HUD or others, then both HUD and the Limited Equity Cooperative Property’s Board of Directors or managers must approve all Cooperative Maintenance Fee increases before the Commitment Date.

- Cooperative Operating Reserve: You must require a reserve equal to at least 6 months of P&I payments on the Mortgage Loan.

- HUD IRP Loan: You must require an IRP reserve equal to 2 months of IRP payments for the life of the IRP Loan. The funds in the IRP reserve may only be used to compensate for late IRP payments.

- Actual Cooperative Property NCF: You must calculate Actual
Cooperative Property NCF per Part III, Chapter 8: Cooperative Properties, Section 804.03: Actual Cooperative Property NCF, but the following exceptions apply:

- Economic vacancy: Use the greater of
  - 5%, or
  - the highest level experienced by the Property during the last 3 years.

- Actual operating expenses: Equal to 103% of the previous year's operating expenses.

- Replacement Reserve: Use the greater of
  - the scheduled Replacement Reserve per unit as determined by a PCA, or
  - $250 per unit per year.

- Unit Turnover: Total unit turnover must not be greater than 20%.

- Escrows: You must require monthly deposits for real estate taxes, insurance, and the Replacement Reserve.

- Cooperative Property Sponsor: There must be no Sponsor-owned units.

- Property management experience: The Property management firm must have Limited Equity Cooperative Property management experience. If HUD restrictions are in-place, the firm must also have a history of successfully complying with HUD restrictions and reporting requirements.

Guidance

You should consider the following:

- Cooperative Operating Reserve: You may include a similar reserve held by another independent lender if the funds are released to you.

- Actual Cooperative Property NCF: 3% trending is not required for trailing 12-month or year-to-date annualized operating expenses.

- Unit Turnover: Unit turnover occurs when a shareholder or tenant chooses to vacate a unit or terminate a lease during the past 3 years.
Chapter 9  Small Mortgage Loans

Section 901  Generally

901.01  Description

☑ Requirements

A Small Mortgage Loan is a Mortgage Loan with an original loan amount of less than or equal to $6 million and underwritten per this Chapter.

901.02  Applicability

☑ Requirements

You may use this Chapter to underwrite conventional Mortgage Loans and the following products:

- MH Communities;
- MAH Properties; and
- market rate Cooperative Properties that are not Limited Equity Cooperative Properties.

Section 902  Key Principal Guaranty Obligation

☑ Requirements

You must obtain a Non-Recourse Guaranty (Form 6015) from each Key Principal.

Section 903  Occupancy

☑ Requirements

Small Mortgage Loans must achieve Stabilized Residential Occupancy as follows:

<table>
<thead>
<tr>
<th>If the Property contains...</th>
<th>Then it must have...</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 or more units</td>
<td>at least 90% physical occupancy by Qualified Occupants for the 90 days immediately before the Commitment Date.</td>
</tr>
</tbody>
</table>
If the Property contains... | Then it must have...
--- | ---
Less than 10 units | • no more than 1 vacant unit as of the Commitment Date, and  
• an average occupancy by Qualified Occupants of at least 90% for the 12-month period immediately before the Commitment Date.

If a Small Mortgage Loan is secured by an MH Community, then Stabilized Residential Occupancy must comply with Part II, Chapter 1: Attributes and Characteristics, Section 105: Minimum Occupancy.

Section 904 Corporate Leases; Leases to One Entity

Guidance

Entity leases are permitted; but you should analyze the effect of leasing

- more than 10% of the total residential units in the Property to corporations, partnerships, trusts, and other entities, or
- more than 5% of the total residential units to any single corporation, partnership, trust, or other entity.

Entity leases of residential units for residential purposes are considered residential space.

Section 905 Property Income Analysis

905.01 Small Mortgage Loan Underwritten NCF (Underwritten NCF)

Requirements

You must calculate Underwritten NCF as follows:

- for a MAH Property, per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703: Property Income and Underwriting; except that Replacement Reserves may be calculated per the table in this Section;
- for a MH Community, per Part III, Chapter 6: Manufactured Housing Communities, Section 606: Property Income and Underwritten NCF;
- for a Cooperative Property, per Part III, Chapter 8: Cooperative Properties, Section 804: Income Analysis; and
- for all conventional Small Mortgage Loans, you must use the following
**REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)**

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| **1** | GROSS RENTAL INCOME the lesser of | • actual rents in place, or  
• market rents for occupied units, plus market rents for vacant units based on a current rent roll (multiplied by 12).<sup>1</sup> |
| **2** | PLUS | To the extent deducted as an operating expense, rents for other non-revenue units. For example:  
• model units deducted in the model apartment operating expense in the general and administrative category;  
• owner-occupied units<sup>2</sup> deducted in the general and administrative category; and  
• employee units<sup>3</sup> deducted in the employee operating expense in the payroll and benefits category. |
<p>| <strong>3</strong> | MINUS | Premiums and corporate premiums. |
| <strong>4</strong> | MINUS | Physical vacancy market rents for vacant units based on a current rent roll (multiplied by 12).&lt;sup&gt;4&lt;/sup&gt; |
| <strong>5</strong> | MINUS | Concessions the aggregate amount of forgone residential rental income resulting from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc.&lt;sup&gt;4&lt;/sup&gt; |
| <strong>6</strong> | MINUS | Bad debt the aggregate amount of unpaid rental income determined to be uncollectable: include any adjustments to other income for bad debt.&lt;sup&gt;4&lt;/sup&gt; |
| <strong>EQUALS</strong> | GROSS POTENTIAL RENT (GPR) |  |
| <strong>EQUALS</strong> | NET RENTAL INCOME (NRI) |  |</p>
<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(a)</td>
<td>In the New York-Northern New Jersey-Long Island, NY-NJ-PA MSA, you may use actual rents in place plus projected increases for rent-regulated units that have rent increases scheduled before, or through, the first 12 months of the loan term. Any units subject to rent regulation on the Commitment Date must be treated as rent-regulated for this calculation even if converting to market rate after origination.</td>
</tr>
<tr>
<td></td>
<td>(b)</td>
<td>For Properties located in New York City that are currently subject to the J51 Tax Incentive Program, you must ensure that the Gross Rental Income complies with Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>You must deduct owner-occupied units as an expense unless</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• the Mortgage Loan is Tier 3 or Tier 4, or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• the Property contains 24 or more units.</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>You must deduct as an expense the portion of the market rent used as employee compensation.</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>The total of Items 4, 5, and 6 must be greater than or equal to</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 3% of GPR for the New York-Northern New Jersey-Long Island, NY-NJ-PA and San Francisco-Oakland-Fremont, CA, Metropolitan Statistical Areas (MSAs), if supported by market and property operations, or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 5% of GPR for all other MSAs.</td>
</tr>
</tbody>
</table>
# REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 7    | PLUS     | Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must:  
  • be stable;  
  • be common in the market;  
  • exclude one-time extraordinary, non-recurring items; and  
  • be supported by prior years.  
  You must assess the individual month other income within the prior full-year operating statement; or at a minimum, an operating statement covering at least the trailing 6 months (annualized). |

# CALCULATION OF COMMERCIAL INCOME

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>PLUS</td>
<td>Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable).</td>
</tr>
<tr>
<td>9</td>
<td>PLUS</td>
<td>Actual income from STR units.</td>
</tr>
<tr>
<td>10</td>
<td>MINUS</td>
<td>10% of the actual commercial income (total of Items 8 plus 9).[^5]</td>
</tr>
</tbody>
</table>

[^5]: 5 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>PLUS</td>
<td>Laundry and vending, parking, and all other income as detailed in Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.</td>
</tr>
</tbody>
</table>

**EQUALS** EFFECTIVE GROSS INCOME (EGI)

# CALCULATION OF OPERATING EXPENSES
### REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 12   | MINUS    | Line-by-line stabilized operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a lease-up, rehabilitation, or other short-term positive or negative factors. Non-recurring, extraordinary operating expenses must not be included.  
You must assess:  
- past operating history;  
- the appraisers expense analysis;  
- all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and  
- the Borrowers budget (in the case of an acquisition).  
You must analyze historical operations at the Property and apply an appropriate increase over the prior years operations in determining an estimate.  
All expenses associated with STRs must be underwritten in their respective expense line items. These expenses include cleaning, furnishing, and repairs.  
You cannot include any operating expense that reflects blanket or bulk discounts that benefit the Borrower or Key Principal (e.g., blanket property or casualty insurance policies, or utilities purchased in bulk). Operating expenses must reflect the Property expenses on a stand-alone basis. |
<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 13   | MINUS    | Property management fee equal to the greatest of:  
|      |          | • 3% of EGI;  
|      |          | • actual property management fee (exclude any portion of a property management fee that is subordinated to the Mortgage Loan); or  
|      |          | • market property management fee. |
| 14   | MINUS    | Real estate taxes based on the greatest of:  
|      |          | • actual future tax bill(s) covering a full calendar year;  
|      |          | • prior full years taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or  
|      |          | • in California, the greater of the Small Mortgage Loan amount or the assessed value, multiplied by the millage rate, plus any special assessments.  
|      |          | You must consider any automatic reassessment upon acquisition in the next 12-month period.  
|      |          | You may use a reduced real estate tax payment if the Property’s real estate tax abatements, exemptions, or deferrals meet the requirements in Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis. |
| 15   | MINUS    | Insurance equal to:  
|      |          | • the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or  
|      |          | • 110% of the current expense, for insurance policies with a remaining term less than 6 months. |
# REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>MINUS</td>
<td>Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses as detailed in Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>EQUALS</th>
<th>UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>MINUS</td>
<td>Replacement Reserve expense equal to at least(^6)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• $200 per unit, for a Property with an overall rating of 1,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• $250 per unit, for a Property with an overall rating of 2, or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• $300 per unit, for a Property with an overall rating of 3.</td>
</tr>
</tbody>
</table>

The Property ratings are the ratings reported on the Comprehensive Assessment Addendum (Comp Assmt Addendum) tab of the MBA Standard Inspection Form.

<table>
<thead>
<tr>
<th></th>
<th>EQUALS</th>
<th>UNDERWRITTEN NET CASH FLOW (UNDERWRITTEN NCF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 If a PCA was completed, the Replacement Reserve must equal the amount required per Part II, Chapter 4: Inspections and Reserves, subject to a minimum of $200 per unit.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## 905.02 Underwritten DSCR

**Requirements**

You must calculate Underwritten DSCR per the following table.
### UNDERWRITTEN DSCR

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>Underwritten NCF as calculated in Part III, Chapter 9: Small Mortgage Loans, Section 905.01: Small Mortgage Loan Underwritten NCF (Underwritten NCF).</td>
</tr>
</tbody>
</table>
| 2    | DIVIDED BY | Annual debt service for the Mortgage Loan amount. You must base debt service on a level debt service payment, including amortization, and the greater of:  
  - the actual note rate, or  
  - the required Underwriting Interest Rate Floor.² |

1 For a Small Mortgage Loan secured by an MAH Property underwritten per this Chapter, you must comply with the minimum DSCR requirement for an MAH Property per Form 4660.

2 For shorter amortization terms, you must:
  - calculate the Underwritten DSCR based on the shorter period, and  
  - comply with the minimum DSCR requirement per Form 4660.

The mandatory NRI adjustments in Part II, Chapter 2: Valuation and Income, for Properties with declining NRI do not apply.

3 For a Small Mortgage Loan secured by an MAH Property underwritten per this Chapter, you must comply with the required Underwriting Interest Rate Floor for an MAH Property per Form 4660.

---

### Section 906 Property Management

**Requirements**

To ascertain the property management requirements, you must determine how many years of experience, as of the Commitment Date, the Borrower or any Key Principal has owning or managing at least 1 multifamily property that is similar in size to the Property, based on the following:

<table>
<thead>
<tr>
<th>Similar in Size</th>
<th>Unit Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Properties</td>
<td>5 50 units</td>
</tr>
</tbody>
</table>
As of the Commitment Date, a non-Local Borrower must have at least 2 years of multifamily ownership or property management experience with a property similar in size or larger than the Property.

Property management requirements are as follows.

<table>
<thead>
<tr>
<th>Property Size</th>
<th>Professional property management or qualified on-site manager required if...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10 residential units</td>
<td>non-Local Borrower.</td>
</tr>
</tbody>
</table>
| 10 or more residential units | • non-Local Borrower, or  
  • Local Borrower with less than 2 years of experience with a property similar in size or larger. |

**Guidance**

A professional property management company should have an office within 100 miles of the Property and use a written management agreement that complies with Part II, Chapter 1: Attributes and Characteristics, Section 111: Property Management and Agreement.

A qualified on-site manager

- is not required to be a Property resident,
- should generally be on-site during normal business hours, and
- for at least 2 years the before the Commitment Date, should have either successfully managed the Property or have demonstrated management experience with a property similar in size or larger than the Property.

**Section 907**  
Property Condition

<table>
<thead>
<tr>
<th>907.01 Site Inspection by Lender or Other Third Party</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Requirements</strong></td>
</tr>
<tr>
<td>You must ensure:</td>
</tr>
<tr>
<td>a physical inspection of the Property is performed (including any Property</td>
</tr>
</tbody>
</table>
securing a Small Mortgage Loan that is also a Choice Refinance Loan);

- the physical inspection addresses special hazards, zoning, building and fire code violations, and regulatory compliance per the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099);

- the person performing the inspection and completing the MBA Standard Inspection Form meets the requirements for a PCA Consultant per Part II, Chapter 4: Inspections and Reserves, Section 402.03: Conducting the PCA, and is:
  - your employee;
  - an appraiser; or
  - a third-party inspector.

If a non-employee appraiser or other third-party inspector performs the physical inspection, you must also have an employee visit the Property.

The site inspection must provide you with enough information to complete the MBA Standard Inspection Form, including:

- an assessment of the current condition of the Property;
- an identification and cost estimate of any Immediate Repairs, which must be included in the appropriate Completion/Repair Agreement; and
- a general estimate of anticipated replacement and major maintenance needs.

For any Property consisting of multiple buildings, the site inspection must address the condition of all roofs, HVAC equipment, exterior façades, parking lots, exterior walkways, and balconies.

If a Mortgage Loan has a term greater than 10 years, then you must ensure that a new site inspection is performed in the 10th year of the loan term.

The date of the site inspection must meet the timing requirements for a PCA in Part II, Chapter 4: Inspections and Reserves, Section 402: Property Condition Assessment (PCA).

You must not Deliver any Small Mortgage Loan secured by a Property that has:

- an overall rating on the MBA Standard Inspection Form that does not comply with Part II, Chapter 4: Inspections and Reserves, Section 401: Site Inspection; or
- deferred maintenance with repair costs greater than 10% of the UPB.
Requirements

You must ensure that the Borrower or the Key Principal:

- Conducts a physical inspection of the Property.
- Certifies in the Multifamily Underwriting Certificate (Form 6460) that the physical inspection has been performed.

907.03 PCA

Requirements

A PCA is required:

- if the site inspection
  - notes structural or physical concerns, or
  - results in an overall rating of 3 being reported on the Comp Assmt Addendum tab of the MBA Standard Inspection Form; or
- when a Replacement Reserve is required per Part III, Chapter 9: Small Mortgage Loans, Section 908: Replacement Reserve.

Guidance

When a PCA is required, you may use:

- the Streamlined Property Condition Assessment Guidance (Form 4099.A), but the PCA must otherwise comply with Part II, Chapter 4: Inspections and Reserves, Section 402: Property Condition Assessment (PCA); and
- the Streamlined PCA Requirements (Form 4099.A) instead of the MBA Standard Inspection Form, if you include the overall inspection rating as defined on the MBA Standard Inspection Form.

Section 908 Replacement Reserve

Requirements

You must require either full funding or alternative funding (per Part II, Chapter 4: Inspections and Reserves, Section 404.03: Alternative Replacement Reserve Funding) of the Replacement Reserve for any Tier 2 Small Mortgage Loan on a

- Property not located in an Eligible MSA per Form 4660, or
Rent-Stabilized Property located in the New York-Newark-Jersey City, NY-NJ-PA MSA.

For all other Small Mortgage Loans, you must determine whether to require funding of the Replacement Reserve.

If you do not require full funding, then you and the Borrower must execute either

- the appropriate Modifications to Multifamily Loan and Security Agreement (Replacement Reserve – Partially or Fully Waived) (Form 6220), or
- the Modifications to Multifamily Loan and Security Agreement (Replacement Reserve – Alternative Funding) (Form 6221).

Section 909 Environmental Matters and Inspections

Requirements

Before the Commitment Date, you must:

- Obtain an Environmental Screening of the Property using the ASTM E-1528 protocol.
- Perform a physical site inspection of the Property.
- Notify the Appraiser of any Recognized Environmental Condition or “non-scope considerations” that would impact the value of the Property.
- Determine if an O&M plan is appropriate to address a Recognized Environmental Condition.
- Determine if the state where the Property is located has an environmental super-lien statute, and ensure that the Property conditions are not likely to result in such a lien.
- Disclose any actual or suspected environmental conditions not disclosed in the ESA.
- Evaluate the potential risk posed by any Recognized Environmental Conditions that could result in loss or liability to you, the Borrower, the Property, or Fannie Mae.
- Obtain a copy of any Phase I ESA that the Borrower has in its possession or can obtain.
- Determine, based on the findings of the environmental screening and analysis, whether a Phase I ESA is required and, if so, contract for the report.
- When indicated, contract for a Phase II ESA.
- Disclose any knowledge of actual or suspected environmental problems.
Guidance

You may contract portions of your environmental responsibilities to qualified parties. The environmental screening and analysis may be completed by:

- the engineer conducting the PCA (if one was required);
- a qualified employee; or
- a qualified non-employee.

Operating Procedures

If a qualified individual performs the environmental screening and analysis, you must:

- Identify the individual.
- Ensure that the individual certifies each environmental analysis.
- Submit a certified copy of each environmental analysis with Folder II of the Multifamily Mortgage Loan Delivery Package Table of Contents (Form 6502).

Section 910 Borrower, Key Principals, Guarantors, and Principals

Requirements

Except as described below, you must comply with all requirements for the Borrower, Key Principals, Guarantors, and Principals in Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals.

910.01 Borrower Organizational Structure

Requirements

Any individual Borrower must not be a Foreign Person.

Although a single asset entity is preferred, the Borrower may be a multi-asset entity.

Guidance

If the Borrower owns multiple assets, then you should obtain and underwrite the Borrower’s complete schedule of owned real estate assets. Your underwriting should include the nature, location, cash flows, outstanding mortgage debt, and contingent liabilities of each asset.
910.02 Co-Tenant Borrowers

Requirements

If a Co-Tenant Borrower is not an individual or a trust holding title to assets of an individual, each Key Principal must execute the applicable Guaranty per Part III, Chapter 9: Small Mortgage Loans, Section 902: Key Principal Guaranty Obligation.

A Co-Tenant Borrower must be

- an individual who is not a Foreign Person,
- a single-asset entity, or
- a multi-asset entity.

910.03 Key Principals

Requirements

You must ensure that any individual Key Principal is not a Foreign Person.

910.04 Principals

Requirements

For Small Mortgage Loans, a Principal is any person or entity that holds direct or indirect interests of 50% or more in the Borrower.

910.05 Financial Statements

Requirements

You must obtain

- a schedule of owned real estate assets, and
- signed financial statements.

Instead of signed financial statements, you may obtain an equivalent signed net worth statement or personal financial statement (such as a form bank application from the Borrower certifying to its financial condition) that conforms to the aging requirements in Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals.

910.06 Net Worth and Liquid Assets
Requirements

You must ensure that:

- the combined net worth of the Borrower and all Key Principals equals or exceeds the original principal amount of the Small Mortgage Loan; and
- the combined post-closing liquid assets (excluding any Small Mortgage Loan cash-out proceeds) of the Borrower and all Key Principals equal at least 9 monthly payments of P&I on the Small Mortgage Loan.

Guidance

You should:

- for net worth, consider the impact of current, long-term, and contingent liabilities compared to the Small Mortgage Loan amount;
- for liquidity, exclude the following unless you have reasonable justification:
  - retirement funds (such as IRAs and 401Ks); and
  - promissory notes payable to the Borrower or a Key Principal, whether secured or unsecured; and
- verify liquid assets for the 2-month period immediately preceding the Borrower’s loan application by obtaining copies of all applicable:
  - bank statements; and
  - investment portfolio statements.

Section 911 Credit Reports

911.01 Credit Report

Requirements

Within 90 days before the Commitment Date, you must obtain credit reports for all individual

- Borrowers,
- Key Principals,
- Guarantors, and
- Principals

from at least 2 of the following credit information services:
Equifax;
Experian; or
TransUnion.

### 911.02 FICO Scoring

#### Requirements

You must ensure that all individual Borrowers, Key Principals, Guarantors, and Principals meet the Minimum FICO Requirement in Form 4660.

#### Guidance

To determine that the Minimum FICO Requirement is met, follow these guidelines:

<table>
<thead>
<tr>
<th>If…</th>
<th>Then…</th>
</tr>
</thead>
<tbody>
<tr>
<td>You obtain credit reports from 2 of the 3 credit information services for a Borrower, Key Principal, Guarantor, or Principal</td>
<td>Use the lower of the 2 scores.</td>
</tr>
<tr>
<td>You obtain credit reports from all 3 credit information services, for a Borrower, Key Principal, Guarantor, or Principal</td>
<td>Use the middle score.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>If…</th>
<th>Then…</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Borrower, Key Principal, or Principal is married to another Borrower, Key Principal, Guarantor, or Principal</td>
<td>Use the lower FICO score of the 2 married individuals.</td>
</tr>
<tr>
<td>A Small Mortgage Loan has multiple individual Borrowers, Key Principals, Guarantors, or Principals</td>
<td>Use the average of their respective FICO scores.</td>
</tr>
</tbody>
</table>

### 911.03 Reviewing the Credit Report

#### Requirements

You must analyze the credit report for each individual Borrower, Key Principal, Guarantor, and Principal.

If the answer to any of the following Guidance questions is “yes”, then the Borrower, Key Principal, Guarantor, or Principal must give you satisfactory explanations, even if they meet the Minimum FICO Requirement.
**Guidance**

As you analyze the credit report, consider the following questions:

- Have any mortgage late payments occurred in the previous 36 months?
- Have any revolving or installment late payments occurred within the previous 12 months?
- Do you consider any of the credit card or other unsecured debt balances excessive?
- Have any tax liens been filed or reported within the previous 5 years?
- Have any discharged bankruptcies or mortgage foreclosures occurred within the previous 10 years?
- Are there any outstanding judgments or collections higher than $5,000?
Chapter 10  Healthy Housing Rewards

Section 1001  Healthy Housing Rewards

Requirements

Healthy Housing Rewards™ provides incentives for Borrowers who incorporate healthy design features or provide enhanced resident services that improve the health and stability of residents of the Property.

You must not combine the Healthy Design product with the Enhanced Resident Services product.

Section 1002  Healthy Design

Requirements

<table>
<thead>
<tr>
<th>Product Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Eligibility</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Certification Cost</strong></td>
</tr>
</tbody>
</table>

Guidance

You may choose to pay the Borrower’s certification cost. Fannie Mae will reimburse you for the certification cost upon Delivery.

Operating Procedures

Fitwel® Certification Process

To obtain a Fitwel® certification, the Borrower must:

1. review the free Fitwel® for Multifamily Residential Scorecard available at www.fitwel.org/resources;
2. decide if the certification is appropriate;
3. begin the process by registering online at www.fitwel.org; and
4. submit all application materials.

The review and certification process takes approximately 6 weeks.

**DUS Gateway Process**

To register a Healthy Design Property in DUS Gateway:

1. select the Pricing/Fees category;
2. select the Healthy Design Certification subcategory; and
3. obtain a pricing quote that may include a pricing incentive.

Before Rate Lock, you must upload the following documents to DUS Gateway as Third-Party Reports, with the Document type set to Healthy Design Certification:

- Fitwel® Star Rating Certificate; and
- Borrower’s invoice or payment receipt from Fitwel®.

If you choose to pay the Borrower’s certification cost and request reimbursement from Fannie Mae, you must upload the following additional documents as Third-Party Reports, with the Document type set to Healthy Design Certification:

- your invoice to Fannie Mae for reimbursement of the certification cost; and
- completed Servicing Advances Payment Reimbursement Request (Form 4829).

To receive reimbursement, you must request the reimbursement from the Deal Team via chatter in DUS Gateway and Deliver the Mortgage Loan as Healthy Housing Rewards.

---

**Section 1003 Enhanced Resident Services**

<table>
<thead>
<tr>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product Description</strong></td>
</tr>
<tr>
<td><strong>Description</strong></td>
</tr>
</tbody>
</table>
### Product Description

<table>
<thead>
<tr>
<th>Eligibility</th>
<th>You must ensure:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• The Property is an MAH Property with rent or income restrictions where at least 60% of the units are serving tenants with incomes of 60% of AMI or less.</td>
</tr>
<tr>
<td></td>
<td>• The Property receives an Enhanced Resident Services (ERS) certification before Rate Lock.</td>
</tr>
<tr>
<td></td>
<td>• The Sponsor receives a Certified Organization for Resident Engagement &amp; Services (CORES) certification before Rate Lock.</td>
</tr>
<tr>
<td></td>
<td>• The Borrower or an Affiliate did not previously receive this benefit for the same Property.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Certification Cost</th>
<th>Borrowers responsibility for the cost of all initial and ongoing Property and Sponsor certifications.</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Underwriting</th>
<th>You must ensure:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• The Sponsor demonstrates a commitment to providing meaningful, coordinated resident services as part of its long-term business strategy.</td>
</tr>
<tr>
<td></td>
<td>• The Property's operating budget includes the costs of providing the services.</td>
</tr>
<tr>
<td></td>
<td>• The underwritten expenses are equal to or greater than the annual dollar amount of the Healthy Housing Rewards ERS pricing reduction.</td>
</tr>
<tr>
<td></td>
<td>• The underwritten expenses include the pricing reduction and costs of providing the services.</td>
</tr>
<tr>
<td></td>
<td>• A Guarantor provides a Non-Recourse Guaranty for losses resulting from failure to comply with the Healthy Housing Rewards terms of the Loan Documents. This Guaranty must be incorporated into the Multifamily Guaranty of Non-Recourse Obligations (Form 6015 series) or covered in a separate guaranty from the Sponsor.</td>
</tr>
</tbody>
</table>

**Guidance**

You may choose to pay the Property’s initial ERS certification cost on behalf of the Borrower. Fannie Mae will reimburse you for the Property’s initial ERS certification cost upon Delivery.
Stewards of Affordable Housing for the Future (SAHF) refers to the Sponsor-level certification as a CORES certification and the property-level certification as an Enhanced Resident Services Property certification.

Services that improve the health and well-being of tenants may support, among other things:

- health and wellness programs;
- food access;
- youth and education programming;
- community engagement;
- job training;
- financial literacy; and
- housing stability.

To meet project timelines, you may permit the Borrower to obtain the

- Sponsor-level certification before identifying the property, and
- Property-level certification in conjunction with underwriting the Mortgage Loan.

Both existing and proposed new services may be included to meet certification requirements. If the Property offers sufficient existing services to receive the required certifications, the Borrower does not need to provide additional services.

**Operating Procedures**

You calculate the Healthy Housing Rewards Enhanced Resident Services price reduction by multiplying the Mortgage Loan amount by the ERS price incentive granted by Fannie Mae.

**DUS Gateway Process**

You must register the deal in DUS Gateway and obtain the pricing quote by selecting both of the following options on the Pre-Review and/or Waiver Edits Screen.

<table>
<thead>
<tr>
<th>Category</th>
<th>Pre-Review (4660)</th>
<th>Pricing/Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-category</td>
<td>Property Operations &amp; Underwriting Terms</td>
<td>Enhanced Resident Services Certification</td>
</tr>
<tr>
<td>Descriptor</td>
<td>Healthy Housing Rewards Enhanced Resident Services</td>
<td>N/A</td>
</tr>
</tbody>
</table>
Prior to Rate Lock, you must upload the following documents to DUS Gateway as Third-Party Reports, with the Document type set to “Enhanced Resident Services Certification”:

- the Sponsor-level certification;
- the Property-level certification; and
- Borrower’s invoice or payment receipt from SAHF for the Property-level certification.

If you choose to pay for the Borrower’s initial Property-level certification and request reimbursement from Fannie Mae, you must upload the following additional documents as Third-Party Reports, with the Document type set to Enhanced Resident Services Certification:

- your invoice to Fannie Mae for reimbursement of the Property-level certification cost; and
- completed Form 4829.

To receive reimbursement, you must request the reimbursement from the Deal Team via chatter in DUS Gateway and Deliver the Mortgage Loan as Healthy Housing Rewards.
Chapter 11  Adjustable Rate Mortgage (ARM) Loans

Section 1101  Description

☑ Requirements

An ARM Loan has

- an interest rate that is adjusted periodically based on a specified
  - Index, and
  - interest period,
- payments that are adjusted to repay the UPB in substantially equal payments over the remaining amortization period, and
- a term of 5, 7, or 10 years, depending on the plan.

| Plan Number          | • 04931 - ARM 5/5 Loan: 30-Day Average SOFR
|                     | • 04933 - ARM 7/6 Loan: 30-Day Average SOFR |
| Terms               | • ARM 5/5 Loan: Initial 5-year term with an optional second 5-year adjustable rate term
|                     | • ARM 7/6 Loan: 7-year term                  |
| Index               | • ARM 5/5 Loan: 30-Day Average SOFR          |
|                     | • ARM 7/6 Loan: 30-Day Average SOFR          |
| Interest Rate Floor | Must not be less than the combined
|                     | • Guaranty Fee, plus
|                     | • Servicing Fee, plus
|                     | • Investor spread.                           |
| Lockout Period      | • 1st Loan Year; and
<p>|                     | • 1st Loan Year of the second 5-year adjustable rate term (typically the 6th Loan Year), when an ARM 5/5 Loan renews for an additional 5-year adjustable rate term. |</p>
<table>
<thead>
<tr>
<th><strong>Product Description</strong></th>
</tr>
</thead>
</table>
| **Prepayment Availability** | May be voluntarily prepaid after each lockout period with a 1% Prepayment Premium, but no Prepayment Premium is due  
  • during the "open period" (typically the last 3 months of the loan term),  
  • when an ARM Loan converts to a fixed rate Mortgage Loan, or  
  • when an ARM 5/5 Loan renews for an additional 5-year adjustable rate term. |
| **Rate Change Date** | Date the interest rate changes based on changes in the selected Index. |
| **Interest Rate Change Frequency** | Monthly |
| **Maximum Interest Rate Change** | Plus or minus 1% of the then-current interest rate. |
| **Maximum Lifetime Interest Rate Limit** |  
  • For an ARM 5/5 Loan,  
    - Guaranty Fee, plus  
    - Servicing Fee, plus  
    - 5%.  
  • For an ARM 7/6 Loan,  
    - Guaranty Fee, plus  
    - Servicing Fee, plus  
    - 6%. |
| **Index Look-Back Period** | 1 Business Day before the Rate Change Date. |
| **Interest Accrual Method** | Actual/360 |
| **Interest Rate Cap** | Not required; interest rate adjustments are subject to an embedded cap. |
Product Description

<table>
<thead>
<tr>
<th>Conversion to Fixed Rate</th>
<th>Permitted, with no prepayment penalty and minimal re-underwriting, after the lockout period and before the &quot;open period&quot; (typically the last day of the 4th month preceding the end of the Mortgage Loan term).</th>
</tr>
</thead>
</table>
| Investors                | • For an ARM 5/5 Loan,  
- the Multifamily Trading Desk, or  
- Third Party MBS Investor.  

• For an ARM 7/6 Loan, the Multifamily Trading Desk. |
| Rate Lock                | • Maximum 45-day Commitment.  
• No rate change may occur before Delivery. |
| ARM 5/5 Loan Options at Maturity | Before the end of the initial 5-year term for an ARM 5/5 Loan, Borrower must elect to:  
• convert the ARM Loan to a fixed rate;  
• fully repay the ARM Loan; or  
• renew the adjustable rate term for an additional 5-year term. |

Section 1102 Underwriting

 ✓ Requirements

You must ensure that the maximum ARM Loan amount is the lowest of the amount:

- calculated applying the applicable minimum DSCR per Form 4660 for both the  
  maximum lifetime interest rate limit, and  
  Fixed Rate Test per Form 4660;

- calculated using the applicable maximum LTV per Form 4660; and

- you determined is appropriate.

You must use the Fixed Rate Test interest rate to determine the UPB for the refinance risk analysis per Part II, Chapter 2: Valuation and Income,
Section 203: Refinance Risk Analysis.

For an ARM 5/5 Loan, you must:

- instruct the PCA Consultant to determine all required Property capital improvements over a 12-year period (i.e., the initial 5-year adjustable rate term, plus the optional 5-year adjustable rate term, plus 2 years); and
- calculate the Replacement Reserve based on the required capital improvements during the first 5-year adjustable rate term, plus 2 years.

Section 1103 Prepayment Terms

1103.01 Generally

Requirements

The following table describes various situations and the applicable prepayment provisions; see Part V, Chapter 2: Reporting and Remitting, Section 213: Prepayment Premium Sharing for Prepayment Premium calculations and sharing between you and Fannie Mae.

<table>
<thead>
<tr>
<th>Situation</th>
<th>Prepayment Provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower attempts to make a voluntary prepayment during the lockout period.</td>
<td>Borrower may not make a voluntary prepayment during the lockout period.</td>
</tr>
<tr>
<td>ARM Loan is accelerated during the prepayment lockout period.</td>
<td>Borrower owes a 5% Prepayment Premium.</td>
</tr>
<tr>
<td>Borrower makes a voluntary prepayment after the lockout period and before the &quot;open period&quot; (typically 3 months prior to the Maturity Date) for any reason other than a casualty or condemnation.</td>
<td>Borrower owes a Prepayment Premium.</td>
</tr>
<tr>
<td>ARM Loan converts to a fixed rate Mortgage Loan.</td>
<td>Borrower does not owe a Prepayment Premium.</td>
</tr>
<tr>
<td>Borrower makes any prepayment during the &quot;open period&quot; (typically 3 months before the Maturity Date).</td>
<td>Borrower does not owe a Prepayment Premium.</td>
</tr>
<tr>
<td>Borrower makes a prepayment at any time due to casualty or condemnation.</td>
<td>Borrower does not owe a Prepayment Premium.</td>
</tr>
</tbody>
</table>
1103.02  1% Prepayment Premium Schedule

Requirements

After the 1st Loan Year, the Prepayment Premium will be 1% for any reason other than a casualty or condemnation.

<table>
<thead>
<tr>
<th>Loan Year</th>
<th>5-Year Term</th>
<th>7-Year Term</th>
<th>10-Year Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Locked Out)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>3</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>4</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>5</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>6</td>
<td>N/A</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>7</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
<tr>
<td>8</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
<tr>
<td>9</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
<tr>
<td>10</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
</tbody>
</table>

1 During the lockout period, the Borrower may not voluntarily prepay the ARM Loan. If the ARM Loan is accelerated during the lockout period, the Borrower owes a 5% Prepayment Premium.

2 If an ARM 5/5 Loan is renewed for the optional 5-year adjustable rate term, the Borrower may not voluntarily prepay during the lockout period at the beginning of the second 5-year adjustable rate term (typically the 6th Loan Year). If the ARM 5/5 Loan is accelerated during the 6th Loan Year, the Borrower owes a 5% Prepayment Premium.

Section 1104  ARM 5/5 Loan Optional 5-Year Adjustable Rate Term
Renewal Eligibility

Requirements

A performing ARM 5/5 Loan is eligible to renew the adjustable rate term for an additional 5-year adjustable rate term if:

- Fannie Mae offers the ARM 5/5 Loan.
- The Loan Documents require a second lockout period at the beginning of the second 5-year adjustable rate term (typically the 6th Loan Year),
prohibiting any voluntary prepayment.

You comply with the Loan Documents, including calculating an updated:

- DSCR, using the current NCF and the Maximum Lifetime Interest Rate Limit, at least equal to the DSCR per Form 4660 based on the same Tier as the initial 5-year adjustable rate term; and

- LTV less than or equal to the LTV per Form 4660 based on the same Tier as the initial 5-year adjustable rate term.
Chapter 12  Structured Adjustable Rate Mortgage (SARM) Loans

Section 1201  Description

A SARM Loan is an ARM Loan with an external Interest Rate Cap.

<table>
<thead>
<tr>
<th>Product Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan Numbers</td>
</tr>
<tr>
<td>Term</td>
</tr>
<tr>
<td>Funding Type</td>
</tr>
<tr>
<td>Index</td>
</tr>
<tr>
<td>Rate Change Date</td>
</tr>
<tr>
<td>Index Look-Back Period</td>
</tr>
<tr>
<td>Interest Rate Floor</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Lockout Period</td>
</tr>
<tr>
<td>Prepayment Availability</td>
</tr>
<tr>
<td>Minimum Loan Amount</td>
</tr>
<tr>
<td>Interest Rate</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Product Description</strong></td>
</tr>
<tr>
<td>------------------------</td>
</tr>
<tr>
<td><strong>Interest Rate Adjustment</strong></td>
</tr>
<tr>
<td>• Occurs every month.</td>
</tr>
<tr>
<td>• Except for the Interest Rate Floor, has no limit on number or size of rate changes.</td>
</tr>
<tr>
<td><strong>Interest Rate Cap</strong></td>
</tr>
<tr>
<td>Required for the entire term of the SARM Loan.</td>
</tr>
<tr>
<td><strong>Interest Accrual Method</strong></td>
</tr>
<tr>
<td>Actual/360</td>
</tr>
<tr>
<td><strong>Amortization</strong></td>
</tr>
<tr>
<td>Amortizes with fixed monthly principal installments based on a calculated actual/360 fixed rate payment.</td>
</tr>
<tr>
<td><strong>Conversion to Fixed Rate</strong></td>
</tr>
<tr>
<td>Permitted, with no prepayment penalty and minimal re-underwriting, after the lockout period and before the &quot;open period&quot; (typically the last day of the 4th month preceding the end of the Mortgage Loan term).</td>
</tr>
<tr>
<td><strong>Investors</strong></td>
</tr>
<tr>
<td>• Third Party MBS Investor, or</td>
</tr>
<tr>
<td>• Multifamily Trading Desk.</td>
</tr>
<tr>
<td><strong>Rate Lock</strong></td>
</tr>
<tr>
<td>• Maximum 45-day Commitment.</td>
</tr>
<tr>
<td>• No rate change may occur before Delivery.</td>
</tr>
</tbody>
</table>

**Section 1202 Underwriting**

- **Requirements**

You must calculate the minimum underwritten DSCR based on an amortizing debt service constant.
<table>
<thead>
<tr>
<th>Minimum Underwritten DSCR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Variable Underwriting Rate</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Debt Service Constant</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

You must ensure that the maximum SARM Loan amount is the lowest of the amount:

- calculated applying the applicable minimum DSCR per Form 4660 for both the
  - Variable Underwriting Rate for the adjustable interest rate, and
  - Fixed Rate Test described in the Form 4660;

- calculated using the applicable maximum LTV Ratio per Form 4660;

- calculated using the minimum Cap Strike Rate, if set by Fannie Mae; and

- you determined is appropriate.

You must use the Fixed Rate Test interest rate to determine the UPB for the refinance risk analysis per Part II, Chapter 2: Valuation and Income, Section 203: Refinance Risk Analysis.
Guidance

The amortization used to underwrite the SARM Loan is different than the actual SARM Loan amortization schedule, which uses fixed monthly principal installments.

Section 1203  Actual Amortization Calculation

Requirements

You must amortize SARM Loans on a straight line basis over the total loan term. The amount of amortization due during the Mortgage Loan term is the same amount that would be due, in total, for a comparable fixed rate loan. When you calculate the amortization due, you must consider:

- the loan term,
- amortization schedule,
- any interest only period, and
- the Pricing and Underwriting Tier.

To calculate SARM Loan amortization, you must use fixed rate pricing with an interest rate equal to:

- an indicative MBS investor yield; plus
- the lower of:
  - the lowest Guaranty Fee and Servicing Fee in the Pricing Memo for a hypothetical actual/360 fixed rate Mortgage Loan with the same loan term and Pricing and Underwriting Tier as the SARM Loan; or
  - the Guaranty Fee and Servicing Fee quoted by the Deal Team for a fixed rate Mortgage Loan when you request pricing for the SARM Loan.

Operating Procedures

1. You must obtain quotes for a hypothetical actual/360 fixed rate Mortgage Loan.

<table>
<thead>
<tr>
<th>For example, for a SARM Loan with a 10-year loan term...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranty Fee quoted by Fannie Mae</td>
</tr>
<tr>
<td>Servicing Fee quoted by Fannie Mae</td>
</tr>
<tr>
<td>US Treasury and Investor spread (quoted by Fannie Mae or Third Party MBS Investor)</td>
</tr>
</tbody>
</table>
For example, for a SARM Loan with a 10-year loan term...

| Gross Note Rate | = 5.50% |

You must use the same 5.50% annual interest rate to calculate the amortization for the 10-year SARM Loan.

2. You must calculate the fixed monthly principal installment required over the term of the SARM Loan following these steps:

   **Step 1:** Using an actual/360 interest accrual method, calculate the aggregate amortization amount that would be collected over the term of the SARM Loan based on the:

   - principal amount of the SARM Loan;
   - lowest applicable interest rate for a hypothetical actual/360 fixed rate Mortgage Loan with the same loan term, and Pricing and Underwriting Tier as the SARM Loan, rounded to 3 decimal places; and
   - required amortization period.

   **Step 2:** Divide the aggregate amortization amount determined in Step 1 by the number of amortizing monthly installments in the SARM Loan term. For example, the number of monthly installments would be:

   - 60, for a 5-year amortizing Mortgage Loan;
   - 84, for a 7-year amortizing Mortgage Loan;
   - 120, for a 10-year amortizing Mortgage Loan; or
   - 108, for a 10-year Mortgage Loan with 1 year of interest-only.

   The result is the fixed monthly principal installment.

**Example:** Assume a 10-year Tier 2 fixed rate Mortgage Loan with a

- 5.500% per annum Gross Note Rate,
- 360-month amortization period, and
- $25 million loan amount.

Calculate the fixed monthly principal installment as follows:

**Step 1:** Calculate the aggregate principal amortization amount that would be collected over the term of the Mortgage Loan if it had a fixed rate.

Estimate the month and year in which the first full monthly loan payment would be made, based on an actual/360 amortization schedule. The total amount of amortization depends on both

- the number of days (i.e., 28, 29, 30, or 31) in the month prior to each
loan payment date, and

- when the next leap year occurs.

Assuming

- a SARM Loan amount of $25 million,
- a 30-year amortization term,
- a debt service constant calculated using the Gross Note Rate of 5.500% (6.8134680% debt service constant),
- an actual/360 interest accrual method,
- an issue date of December 1, 2018, and
- a first loan payment date of January 1, 2019,

the aggregate amount allocated to principal over 120 payments is $4,114,494.17.

**Step 2:** Calculate the fixed monthly principal installment by dividing the aggregate amortization amount by the total number of amortizing payments during the SARM Loan term.

<table>
<thead>
<tr>
<th>Calculate the fixed monthly principal installment...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate amortization</td>
</tr>
<tr>
<td>Divided by total payments</td>
</tr>
<tr>
<td>Equals fixed monthly principal</td>
</tr>
</tbody>
</table>

**Section 1204** Prepayment Terms

**1204.01** Generally

- **Requirements**

  The following table describes various situations and the applicable prepayment provisions; see Part V, Chapter 2: Reporting and Remitting, Section 213: Prepayment Premium Sharing for Prepayment Premium calculations and sharing between you and Fannie Mae.

<table>
<thead>
<tr>
<th>Situation</th>
<th>Prepayment Provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower attempts to make a voluntary prepayment during the lockout period.</td>
<td>Borrower may not make a voluntary prepayment during the lockout period.</td>
</tr>
</tbody>
</table>
### 1204.02 Prepayment Option 1 – Declining Prepayment Premium Schedule

#### Requirements

For a voluntary prepayment after the stated lockout period using Prepayment Option 1, you must use Schedule 4 of the Multifamily Loan and Security Agreement - Prepayment Premium Schedule (Graduated Prepayment Premium – ARM, SARM) (Form 6104.10) with the applicable Prepayment Premium percentage listed in this table.

<table>
<thead>
<tr>
<th>Loan Year</th>
<th>5-Year Term</th>
<th>7-Year Term</th>
<th>10-Year Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Locked Out)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>3</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>4</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>5</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>6</td>
<td>N/A</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>7</td>
<td>N/A</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>8</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
</tbody>
</table>
### Loan Year

<table>
<thead>
<tr>
<th>Loan Year</th>
<th>5-Year Term</th>
<th>7-Year Term</th>
<th>10-Year Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
<tr>
<td>10</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
</tbody>
</table>

1 During the lockout period, the Borrower may not voluntarily prepay the SARM Loan. If the SARM Loan is accelerated during the lockout period, the Borrower owes a 5% Prepayment Premium.

#### 1204.03 Prepayment Option 2 - 1% Prepayment Premium Schedule

**Requirements**

For a voluntary prepayment after the stated lockout period using Prepayment Option 2, you must use Schedule 4 to Multifamily Loan and Security Agreement (Prepayment Premium Schedule-1% Prepayment Premium – ARM, SARM)(Form 6104.11) to document the required 1% Prepayment Premium.

<table>
<thead>
<tr>
<th>Loan Year</th>
<th>5-Year Term</th>
<th>7-Year Term</th>
<th>10-Year Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Locked Out)(^1)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>3</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>4</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>5</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>6</td>
<td>N/A</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>7</td>
<td>N/A</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>8</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
<tr>
<td>9</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
<tr>
<td>10</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
</tbody>
</table>

1 During the lockout period, the Borrower may not voluntarily prepay the SARM Loan. If the SARM Loan is accelerated during the lockout period, the Borrower owes a 5% Prepayment Premium.

#### Section 1205 Interest Rate Caps

**Requirements**
<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate Cap</td>
<td>Borrower must purchase a third-party Interest Rate Cap.</td>
</tr>
<tr>
<td>Interest Rate Cap Provider</td>
<td>Borrower must only obtain bids from providers approved by Fannie Mae as listed on <a href="https://multifamily.fanniemae.com">https://multifamily.fanniemae.com</a>.</td>
</tr>
<tr>
<td>Interest Rate Cap Documentation</td>
<td>Must be on forms that are acceptable to Fannie Mae.</td>
</tr>
<tr>
<td>Minimum Interest Rate Cap Term</td>
<td>5 years. The Borrower must keep an Interest Rate Cap Agreement in place continually until the earlier of the</td>
</tr>
<tr>
<td></td>
<td>• effective date of any permitted conversion to a fixed rate Mortgage Loan, or</td>
</tr>
<tr>
<td></td>
<td>• Maturity Date of the SARM Loan.</td>
</tr>
<tr>
<td>Replacement Cap</td>
<td>You must ensure that the Borrower purchases a replacement cap if the Interest Rate Cap term expires before the conversion or Maturity Date of the SARM Loan.</td>
</tr>
<tr>
<td>Cap Cost Factor</td>
<td>Equals the cost of a replacement cap divided by the initial cap term.</td>
</tr>
<tr>
<td>Interest Rate Cap Reserves</td>
<td>Borrower must fund a cash reserve sufficient to purchase a replacement cap if the Interest Rate Cap term expires before the Maturity Date of the SARM Loan.</td>
</tr>
<tr>
<td>Cap Contract Process and Documentation</td>
<td>You must deliver all cap-related documentation to Fannie Mae, including the</td>
</tr>
<tr>
<td></td>
<td>• Interest Rate Cap Agreement, and</td>
</tr>
<tr>
<td></td>
<td>• Interest Rate Cap Reserve and Security Agreement (Form 6442).</td>
</tr>
<tr>
<td></td>
<td>Fannie Mae will engage outside counsel at your expense to review all cap-related documentation.</td>
</tr>
<tr>
<td>Initial Interest Rate Cap Notional Amount</td>
<td>Notional amount of the initial Interest Rate Cap throughout its term must equal the original principal amount of the SARM Loan.</td>
</tr>
</tbody>
</table>
Guidance

You may require the Borrower to:

- pay Fannie Mae's costs, including legal fees; and
- fund a reserve for the payment of these expenses.

1205.01 Replacement Interest Rate Cap

Requirements

If the initial Interest Rate Cap expires before the Maturity Date of the SARM Loan, you must ensure that:

- The Borrower purchases a replacement Interest Rate Cap to cover the remaining term.
- The notional amount of any replacement cap equals the outstanding principal balance of the SARM Loan when the replacement cap becomes effective, and continues throughout the term of the replacement cap.
- The term of the replacement cap equals the remaining term of the SARM Loan, or a shorter term if previously approved and documented in the Loan Documents.
- The Cap Strike Rate of the replacement cap is equal to or less than the Cap Strike Rate at Mortgage Loan origination (see Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.02: Determining the Cap Strike Rate).

Guidance

The Borrower may purchase an Interest Rate Cap in advance if

- the initial cap goes into effect on the Mortgage Loan Origination Date, and
- the replacement cap goes into effect on the Maturity Date of the initial cap.

1205.02 Determining the Cap Strike Rate

Requirements

You must determine the maximum Cap Strike Rate. The sum of the following must not be greater than the rate (calculated using an underwritten debt service constant that includes amortization) that produces the minimum required Underwritten DSCR for the Pricing and Underwriting Tier of the SARM Loan:
Cap Strike Rate; plus
Guaranty Fee; plus
Servicing Fee; plus
Investor spread; plus
the higher of a cap cost factor (see Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.03: Including the Cap Cost Factor in the Variable Underwriting Rate) or actual Interest Rate Cap escrow deposits, if an interest rate cap for the full term of the Mortgage Loan is not purchased at closing.

You must ensure that the Cap Strike Rate at which the Borrower purchases any replacement cap is not greater than the Cap Strike Rate at which the initial cap was purchased.

Guidance
If the Borrower purchases an Interest Rate Cap with a Cap Strike Rate less than the maximum rate, then any replacement cap may still be purchased at a Cap Strike Rate that is less than or equal to the maximum rate.

You may calculate the initial Cap Strike Rate based on an interest-only underwritten debt service constant if the approved interest-only term is greater than or equal to the initial Interest Rate Cap term.

1205.03 Including the Cap Cost Factor in the Variable Underwriting Rate

Requirements
When determining the Variable Underwriting Rate used to calculate the minimum required Underwritten DSCR, you must include a cap cost factor based on the term of the SARM Loan and the term of the initial Interest Rate Cap.

You do not need to include a cap cost factor if the term of the initial Interest Rate Cap equals the term of the SARM Loan.

You must ensure that the cap cost factor equals

- the estimated cost of the replacement cap (when the term of the initial cap expires), divided by
- the term of the initial cap.

Operating Procedures
For example, to calculate the cap cost factor assuming a 5-year Interest
Rate Cap and 7-year SARM Loan term:

- You must include an annual cap cost factor in the Variable Underwriting Rate.
- If the SARM Loan term is 7 years and an initial cap is purchased for a 5-year term, the cap cost factor equals the estimated cost of a replacement cap divided by 5 (the number of years of the initial interest rate term).
- The replacement cap has a 2-year term and a Cap Strike Rate equal to that of the initial cap.
- If a 2-year Interest Rate Cap at the initial Cap Strike Rate costs 20 basis points, you must divide 20 by 5, then add the result (4 basis points) to the Variable Underwriting Rate.

1205.04 Establishing Interest Rate Cap Reserves

☐ Requirements

You must ensure that the Borrower has a cash reserve to purchase a replacement Interest Rate Cap if the term of the initial Interest Rate Cap is less than the term of the SARM Loan.

If the initial Interest Rate Cap Agreement has a term of 5 years, the Borrower must fund the cash reserve with each monthly Mortgage Loan payment during the term.

If the initial cap has a term of more than 5 years, the Borrower’s monthly reserve payments for a replacement cap must start no later than 5 years before the existing cap expires.

You must calculate the monthly reserve payments for the first 12-month period using the estimated cost of the replacement Interest Rate Cap.

➔ Guidance

Assuming that a 5-year Interest Rate Cap is initially purchased for a SARM Loan with a 10-year term, if

- the initial cap is purchased with a 6.50% Cap Strike Rate, and
- the cost of a replacement 5-year cap with a 6.50% Cap Strike Rate is $250,000,
- then the monthly reserve for the first 12-month period would be $4,166.67 ($250,000 cost ÷ 60 months).

1205.05 Interest Rate Cap Contract Documentation and Delivery
Operating Procedures

1. **Cap Provider Payment**

The Interest Rate Cap provider must make a payment directly to you if, on the 1st day of the month corresponding with the monthly loan payment date, the 30-Day Average SOFR Index exceeds the Cap Strike Rate for a monthly settlement.

Only disburse a provider payment to the Borrower if

- there is no Mortgage Loan default, and
- you have received all payments due under the Note for that month.

2. **Timing**

The Borrower must accept a bid for the initial Interest Rate Cap in writing from a Fannie Mae approved provider before you Deliver the SARM Loan.

You must give Fannie Mae copies of all cap-related documentation when you deliver the SARM Loan.

3. **Purchase Price**

The Borrower must pay the entire purchase price for an Interest Rate Cap to the provider when the Interest Rate Cap Agreement is issued.

4. **Pledge to Fannie Mae**

The Borrower must execute Form 6442 to pledge its interest in the Interest Rate Cap and any reserve to Fannie Mae, as additional collateral for the SARM Loan.
Chapter 13  Hybrid Adjustable Rate Mortgage (Hybrid ARM) Loans

Section 1301  Description

**Requirements**

A Hybrid ARM Loan combines the features of fixed rate and ARM Loans, and has a total term of 30 years, consisting of

- an initial term when interest accrues at a fixed rate, followed by
- the remaining term, during which interest accrues at an adjustable rate.

<table>
<thead>
<tr>
<th>Product Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Plan Number</strong></td>
</tr>
<tr>
<td><strong>Terms</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Maximum Loan Amount</strong></td>
</tr>
<tr>
<td><strong>Ineligible Products</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Product Description</td>
</tr>
<tr>
<td>---------------------</td>
</tr>
<tr>
<td><strong>Prepayment Premium Options</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Prepayment Premium Period End Date / Yield Maintenance Period End Date</strong></td>
</tr>
<tr>
<td><strong>Conversion to Adjustable Rate</strong></td>
</tr>
<tr>
<td><strong>Index During Adjustable Rate Term</strong></td>
</tr>
<tr>
<td><strong>Interest Rate Floor</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Gross Note Rate During Adjustable Rate Term</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Rate Change Date</strong></td>
</tr>
<tr>
<td><strong>Interest Rate Change Frequency During Adjustable Rate Term</strong></td>
</tr>
<tr>
<td><strong>Frequency of Payment Change During Adjustable Rate Term</strong></td>
</tr>
<tr>
<td><strong>Maximum Interest Rate Change</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
## Product Description

<table>
<thead>
<tr>
<th>Product Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Maximum Interest Rate During Adjustable Rate Term</strong></td>
</tr>
<tr>
<td><strong>Index Look-Back Period</strong></td>
</tr>
<tr>
<td><strong>Interest Accrual Method</strong></td>
</tr>
<tr>
<td><strong>Payments</strong></td>
</tr>
<tr>
<td><strong>Interest-Only</strong></td>
</tr>
</tbody>
</table>

You must rate lock the Hybrid ARM Loan with the Multifamily Trading Desk (MBS or cash).

You must underwrite the Hybrid ARM Loan based on the applicable fixed rate terms.

### Section 1302 Interest Rate Conversion Date

**Requirements**

The conversion of the interest rate from fixed to adjustable is mandatory and automatic. After Fannie Mae confirms the Commitment for the Hybrid ARM Loan, it may not be modified.

After the Hybrid ARM Conversion Date, interest will accrue at the applicable adjustable rate, up to and including the Maturity Date.

**Operating Procedures**

As an example of the conversion to adjustable rate date calculation in Part III, Chapter 13: Hybrid Adjustable Rate Mortgage (Hybrid ARM) Loans, Section 1301: Description:

- If the effective date of the Loan Documents is July 1, 2019, and the fixed rate term is 7 years, then the Hybrid ARM Conversion Date would be July 1, 2026.

- If the fixed rate term is 7 years and the effective date is any other date in July 2019, then the Hybrid ARM Conversion Date would be August 1, 2026.

### Section 1303 Prepayment Terms
Requirements

You must select from 3 Prepayment Premium options.

### PREPAYMENT Option 1 – 5% Declining Prepayment Premium Schedule

<table>
<thead>
<tr>
<th>Loan Year</th>
<th>5-Year Term</th>
<th>7-Year Term</th>
<th>10-Year Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>2</td>
<td>4%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>3</td>
<td>3%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>4</td>
<td>2%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>5</td>
<td>1%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>6</td>
<td>N/A</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>7</td>
<td>N/A</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>8</td>
<td>N/A</td>
<td>N/A</td>
<td>2%</td>
</tr>
<tr>
<td>9</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
<tr>
<td>10</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
</tbody>
</table>

### PREPAYMENT Option 2 – 3% Declining Prepayment Premium Schedule

<table>
<thead>
<tr>
<th>Loan Year</th>
<th>5-Year Term</th>
<th>7-Year Term</th>
<th>10-Year Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>2</td>
<td>2%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>3</td>
<td>1%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>4</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>5</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>6</td>
<td>N/A</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>7</td>
<td>N/A</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>8</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
<tr>
<td>9</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
<tr>
<td>10</td>
<td>N/A</td>
<td>N/A</td>
<td>1%</td>
</tr>
</tbody>
</table>
### PREPAYMENT Option 3 – Standard Yield Maintenance

<table>
<thead>
<tr>
<th>Loan Year</th>
<th>5-Year Term</th>
<th>7-Year Term</th>
<th>10-Year Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield Maintenance Ends</td>
<td>Last day of the 5th Loan Year</td>
<td>Last day of the 7th Loan Year</td>
<td>Last day of the 10th Loan Year</td>
</tr>
</tbody>
</table>

If the Borrower makes a prepayment due to casualty or condemnation, no Prepayment Premium is due. For all other prepayments, the Borrower must pay a Prepayment Premium if the prepayment occurs before the Prepayment Premium Period End Date.

The Borrower may prepay the Hybrid ARM Loan without any Prepayment Premium:
- on the last day of the fixed rate term; or
- at any time during the adjustable rate term.

The Prepayment Premium is shared with Fannie Mae per Part V, Chapter 2: Reporting and Remitting, Section 213: Prepayment Premium Sharing using the applicable Prepayment Premium schedule for a fixed rate Mortgage Loan.

### Section 1304  Monthly Principal and Interest Payments

#### 1304.01 During the Fixed Rate Term

- **Requirements**

  The monthly installments of P&I must equal the amount needed to repay the UPB
  - in substantially equal payments over the amortization term at the fixed rate, and
  - based on a 30/360 interest accrual method.

  To calculate loan payments at the end of an interest only period, refer to the Loan Documents.

#### 1304.02 On the Hybrid ARM Loan Conversion Date

- **Requirements**

  On the Hybrid ARM Conversion Date, the Borrower must make the last regularly scheduled payment of P&I for the fixed rate term.
Requirements

The Borrower must make payments of P&I based on changes to the Index:

- on the 1st day of the month immediately following the Hybrid ARM Conversion Date; and
- on the 1st day of each month thereafter, until the Maturity Date.

On the Rate Change Date, a new P&I installment will be calculated to be in effect on the 1st day of the following month.

Monthly installments of P&I, due on each payment date during the adjustable rate term, must equal the amount needed to repay the UPB

- in substantially equal payments over the amortization term at the variable rate,
- based on a 30/360 interest accrual method.

Operating Procedures

To determine the amount of each monthly installment allocated to principal, subtract the amount allocated to interest following each rate change.

For example:

<table>
<thead>
<tr>
<th>A 5-year Hybrid ARM Loan with the following terms:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Amount</td>
</tr>
<tr>
<td>Fixed Rate</td>
</tr>
<tr>
<td>Fixed Rate Term</td>
</tr>
<tr>
<td>Amortization Term</td>
</tr>
<tr>
<td>Fixed Rate Period</td>
</tr>
<tr>
<td>Monthly Payment</td>
</tr>
<tr>
<td>UPB at End of Month 60</td>
</tr>
</tbody>
</table>

Upon conversion to adjustable rate in month 61, amortization is recalculated using the following terms:

| Loan Amount | $2,303,737.20 |
| Variable Rate | 4.25%        |
Upon conversion to adjustable rate in month 61, amortization is recalculated using the following terms:

<table>
<thead>
<tr>
<th>Amortization Term</th>
<th>300 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Payment</td>
<td>$12,480.22</td>
</tr>
<tr>
<td>Interest Payment</td>
<td>((4.25% / 360\text{ months}) \times 30 \times \text{UPB})</td>
</tr>
<tr>
<td>Principal Payment</td>
<td>Monthly Payment Interest Payment</td>
</tr>
<tr>
<td>UPB at End of Month 66</td>
<td>$2,277,579.64</td>
</tr>
</tbody>
</table>

At rate change in month 67, amortization is recalculated using the following terms:

| Loan Amount          | $2,277,579.64 |
| Variable Rate        | 4.50\% |
| Amortization Term    | 294 months |
| Monthly Payment      | $12,799.71 |
| Interest Payment     | \((4.50\% / 360\text{ months}) \times 30 \times \text{UPB}\) |
| Principal Payment    | Monthly Payment Interest Payment |
| UPB at End of Month 72 | $2,251,786.15 |
Chapter 14  Supplemental Mortgage Loans

Section 1401  Description

Requirements

A Fannie Mae Supplemental Mortgage Loan is available for Properties with a Pre-Existing Mortgage Loan.

A non-Fannie Mae Subordinate Loan is only permitted for MAH Properties per Part III, Chapter 7: Multifamily Affordable Housing Properties.

For Moderate Rehabilitation Supplemental Mortgage Loans, see Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans.

Section 1402  Supplemental Mortgage Loans

1402.01  Description

Requirements

<table>
<thead>
<tr>
<th>Product Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lender Eligibility</strong></td>
</tr>
<tr>
<td><strong>Ineligible Products</strong></td>
</tr>
<tr>
<td><strong>Loan History</strong></td>
</tr>
<tr>
<td><strong>Origination Date</strong></td>
</tr>
<tr>
<td>Product Description</td>
</tr>
<tr>
<td>---------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Maximum Number of Supplemental Mortgage Loans</strong></td>
</tr>
<tr>
<td>Only 1 Supplemental Mortgage Loan is permitted during the Senior Mortgage Loan term unless:</td>
</tr>
<tr>
<td>• it is a Moderate Rehabilitation Supplemental Mortgage Loan;</td>
</tr>
<tr>
<td>• it is a Green Rewards Supplemental Mortgage Loan where 100% of the proceeds are used to implement selected Efficiency Measures; or</td>
</tr>
<tr>
<td>• the Property is sold to an unrelated new Borrower who assumes the Pre-Existing Mortgage Loan, and the closing and funding of the new Supplemental Mortgage Loan occurs concurrently with the Property sale and Pre-Existing Mortgage Loan assumption.</td>
</tr>
<tr>
<td><strong>Minimum Supplemental Loan Term</strong></td>
</tr>
<tr>
<td>5 years provided that:</td>
</tr>
<tr>
<td>• for Pre-Existing Mortgage Loans with a balloon payment at the Maturity Date, the Maturity Date of the Supplemental Mortgage Loan must not be before that of any Pre-Existing Mortgage Loan; and</td>
</tr>
<tr>
<td>• for fully amortizing Pre-Existing Mortgage Loans, the Maturity Date of the Supplemental Mortgage Loan must not be before the latest Prepayment Premium Period End Date of any Pre-Existing Mortgage Loan.</td>
</tr>
<tr>
<td><strong>Mortgage Loan Amount</strong></td>
</tr>
<tr>
<td>Except per Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402.03: Loan Amount, you must determine the Underwritten NCF, Underwritten DSCR, and LTV per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products in Part III.</td>
</tr>
<tr>
<td>Product Description</td>
</tr>
<tr>
<td>-------------------------</td>
</tr>
</tbody>
</table>
| **Replacement Reserve, Tax, and Insurance Escrows** | You must:  
  • Calculate the Replacement Reserve, tax, and insurance escrows on the resulting Tier of the combined Pre-Existing Mortgage Loan and Supplemental Mortgage Loan.  
  • Ensure that escrow funding established with the Pre-Existing Mortgage Loans does not decrease or cease.  
  • Adjust the funding when necessary to meet current Tier 2 requirements for any Tier Dropping Supplemental Mortgage Loan if the combined Tier is Tier 2. |
| **Cross-Default** | Must be cross-defaulted with all Pre-Existing Mortgage Loans. |
| **Interest Rate Type** |  
  • Fixed rate, if the Pre-Existing Mortgage Loan has a fixed rate.  
  • Fixed or variable rate, if the Pre-Existing Mortgage Loan has a variable rate. |
| **UCC Financing Statements** | No new UCC Financing Statement is required for the Supplemental Mortgage Loan.  
  If the Lien of the Senior Mortgage Loan is released before the Supplemental Mortgage Loan is repaid in full, you must file a UCC Financing Statement for the Supplemental Mortgage Loan in the appropriate public records office. |

**Guidance**

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

1402.02 Coterminous and Non-Coterminous  

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

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

☑️ Requirements

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

### 1402.03 Loan Amount

#### 1402.03A Maximum Loan Amount

☑️ Requirements

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

#### 1402.03B Calculating the Debt Service

☑️ Requirements

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

<table>
<thead>
<tr>
<th>Pre-Existing Mortgage Loans</th>
<th>Use an amortizing Debt Service Amount based on the</th>
</tr>
</thead>
<tbody>
<tr>
<td>If the Interest Rate Type is</td>
<td>Gross Note Rate.</td>
</tr>
<tr>
<td>Fixed Rate</td>
<td></td>
</tr>
<tr>
<td>Adjustable Rate</td>
<td>• origination loan amount;</td>
</tr>
<tr>
<td></td>
<td>• amortization term; and</td>
</tr>
<tr>
<td></td>
<td>• Variable Underwriting Rate per the applicable</td>
</tr>
<tr>
<td></td>
<td>Part III Chapters.</td>
</tr>
</tbody>
</table>
### 1402.03C Calculating the DSCR and LTV

**Requirements**

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

<table>
<thead>
<tr>
<th>Supplemental Mortgage Loan</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DSCR</strong></td>
<td>The combined debt service of</td>
</tr>
<tr>
<td></td>
<td>• all Pre-Existing Mortgage Loans, plus</td>
</tr>
<tr>
<td></td>
<td>• the Supplemental Mortgage Loan.</td>
</tr>
<tr>
<td><strong>LTV</strong></td>
<td>The combined</td>
</tr>
<tr>
<td></td>
<td>• aggregate UPB of all Pre-Existing Mortgage Loans, plus</td>
</tr>
<tr>
<td></td>
<td>• the principal amount of the Supplemental Mortgage Loan.</td>
</tr>
</tbody>
</table>

### 1402.03D New Loan Test

**Requirements**

If the Senior Mortgage Loan Maturity Date is 5 years or less after the proposed Supplemental Mortgage Loan Origination Date, you must perform a New Loan Test to confirm that the combined UPB of all Pre-Existing Mortgage Loans and the Supplemental Mortgage Loan does not exceed the maximum loan amount calculated using the applicable Pricing and Underwriting Tier for a new fixed rate Mortgage Loan.

You must base the New Loan Test calculations on the current applicable minimum DSCR and maximum LTV per Form 4660 for a Tier 2, cash out, Supplemental Mortgage Loan using the higher of the:

- current interest rate of the Senior Mortgage Loan; or
current applicable Underwriting Interest Rate Floor for a Tier 2 Mortgage Loan
- with a 10-year loan term, and
- for a property located in a Nationwide market (regardless of the Property’s actual location), per Form 4660.

### 1402.04 Tier Dropping

#### 1402.04A Designating

**Requirements**

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

**Operating Procedures**

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

#### 1402.04B Eligibility

**Requirements**

<table>
<thead>
<tr>
<th>Tier Dropping Eligibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>If the Pre-Existing Mortgage Loan is...</td>
</tr>
<tr>
<td>Cash</td>
</tr>
</tbody>
</table>

- minimum applicable DSCR for Tier 2 Mortgage Loans, and
- maximum applicable LTV for Tier 2 Mortgage Loans.
### Tier Dropping Eligibility

<table>
<thead>
<tr>
<th>If the Pre-Existing Mortgage Loan is...</th>
<th>It is eligible for a Tier Dropping Supplemental Mortgage Loan if...</th>
</tr>
</thead>
</table>
| MBS                                    | • it was designated as eligible for a Tier Dropping Supplemental Mortgage Loan; and  
• the combined Pre-Existing Mortgage Loans and Supplemental Mortgage Loan meet the Form 4660 - minimum applicable DSCR for Tier 2 Mortgage Loans, and  
• maximum applicable LTV for Tier 2 Mortgage Loans. |

### 1402.04C Ineligible Mortgage Loans

**Requirements**

ARM Loans cannot be Tier Dropping Supplemental Mortgage Loans.

### 1402.05 Streamlined Underwriting

**1402.05A Property**

**Requirements**

<table>
<thead>
<tr>
<th>Streamlined Underwriting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Zoning</strong></td>
</tr>
</tbody>
</table>
| You must perform a non-conforming use analysis and comply with Part II, Chapter 3: Legal Compliance, Section 301: Zoning and Legal Non-Conforming Uses if the Property was rezoned after the Mortgage Loan Origination Date, either  
• causing it to become a non-conforming use, or  
• restricting the right to rebuild an existing non-conforming use.  
A new zoning and non-conforming use analysis is not required if the zoning has not changed. |
<p>| <strong>Appraisal</strong>            |
| You must obtain a new Appraisal. |</p>
<table>
<thead>
<tr>
<th>Property Management</th>
<th>If there has been or will be a Property management change, you must comply with Part II, Chapter 1: Attributes and Characteristics, Section 111.01: Property Management.</th>
</tr>
</thead>
</table>
| Property Condition Assessment Report | You must obtain a PCA Report if the Supplemental Mortgage Loan Property inspection reveals any adverse change in property condition or life safety issues.  
A PCA Report is not required if:  
• there has been no adverse change;  
• the existing PCA Report is less than 3 years old;  
• all immediate repairs identified in the existing PCA Report have been satisfactorily completed; and  
• the most recent Property inspection indicates an overall rating of 1 or 2. |
| Replacement Reserves | • If the PCA Report indicates a need to increase the existing or fund an initial Replacement Reserve, you must ensure the funding by amending the Replacement Reserve Schedule.  
• Even if there is no funding or only partial funding for a Pre-Existing Mortgage Loan, you must fully fund the Replacement Reserve if the combined DSCR and LTV for all Pre-Existing Mortgage Loans and the Supplemental Mortgage Loan is Tier 2. |
### Streamlined Underwriting

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

#### 1402.05B  Borrower, Guarantor, Key Principals, and Principals

- **Requirements**

  You must:

  - identify all Key Principals and Principals of the Borrower and Guarantor;
  - confirm the original underwriting of the Borrower, Guarantor, and each Key Principal and Principal per Part I, Chapter 3: Borrower,
Guarantor, Key Principals, and Principals;

- obtain updates to the:
  - financial statements for all parties relevant to the transaction;
  - Multifamily Underwriting Certificates (Form 6460) for the Borrower, Guarantor, and each Key Principal;
  - organizational documents of the Borrower, Guarantor, and each Key Principal; and
  - good standing certificate from the jurisdiction where an entity Borrower and Guarantor are organized;

- confirm that the organizational structure of the Borrower, Guarantor, and each Key Principal complies with Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals; and

- confirm that no unauthorized change has been made to the organizational structure or organizational documents of the Borrower or the Guarantor.

Operating Procedures

You must contact Fannie Mae per Part V, Chapter 7: Non-Performing Mortgage Loans, Section 704: Notice of Default; Reservation of Rights if there has been:

- an unauthorized Transfer/Assumption; or
- any change in the organizational structure of the Borrower, Guarantor, or any Key Principal or Principal.
Chapter 15  Split Mortgage Loans and Bifurcated Mortgage Loans

Section 1501  Description

- **Requirements**

A Split Mortgage Loan consists of 2 Mortgage Loans, a Senior Mortgage Loan and a Subordinate Loan, that are underwritten concurrently. A Split Mortgage Loan allows the Borrower to divide the debt or increase the leverage on a property.

A Bifurcated Mortgage Loan is a single Senior Mortgage Loan that is evidenced by 2 Notes with the same payment and collateral priority. A Bifurcated Mortgage Loan allows the Borrower to deleverage a portion of the debt.

Split Mortgage Loans and Bifurcated Mortgage Loans are sometimes referred to as A/B Structures. Split Mortgage Loans and Bifurcated Mortgage Loans are not the same as the Dual Commitment Option described in Part IV, Chapter 3: Streamlined Rate Lock, Section 307: Dual Commitment Option.

Section 1502  Characteristics

- **Requirements**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Split Mortgage Loans</th>
<th>Bifurcated Mortgage Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing</td>
<td>Subordinate Loan closing must occur on, or within 12 months after, the Senior Mortgage Loan closing.</td>
<td>Must occur on the same date.</td>
</tr>
<tr>
<td>Loan Amount</td>
<td>Aggregate original principal amounts of the Senior Mortgage Loan and the Subordinate Loan.</td>
<td>Aggregate original principal amounts of the 2 Notes.</td>
</tr>
<tr>
<td></td>
<td>If any proceeds are based on an IRP, Part III, Chapter 7: Multifamily Affordable Housing Properties applies.</td>
<td></td>
</tr>
<tr>
<td>Purpose</td>
<td>Either acquisition or refinancing.</td>
<td>Either acquisition or refinancing.</td>
</tr>
<tr>
<td>Topic</td>
<td>Split Mortgage Loans</td>
<td>Bifurcated Mortgage Loans</td>
</tr>
<tr>
<td>------------------------------</td>
<td>--------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Underwriting</td>
<td>The 2 Mortgage Loans must:&lt;br&gt;• not have a combined LTV higher than the maximum standard for a Senior Mortgage Loan;&lt;br&gt;• not have a combined DSCR lower than the minimum standard for a Senior Mortgage Loan; and&lt;br&gt;• be cross-defaulted.</td>
<td>Must not have a combined:&lt;br&gt;• LTV higher than the maximum standard for a Senior Mortgage Loan; and&lt;br&gt;• DSCR lower than the minimum standard for a Senior Mortgage Loan.</td>
</tr>
<tr>
<td>Interest Rate Structures</td>
<td>Either a fixed or variable interest rate.&lt;br&gt;<strong>If you use a combination of fixed and variable interest rates, you must comply with Part III, Chapter 14: Supplemental Mortgage Loans.</strong></td>
<td>Either a fixed or variable interest rate.&lt;br&gt;<strong>If you use a combination of fixed and variable interest rates, each Note must have its own MBS.</strong></td>
</tr>
<tr>
<td>Documentation</td>
<td>2 separate sets of Loan Documents: 1 for the Senior Mortgage Loan and 1 for the Subordinate Loan.</td>
<td>1 set of Loan Documents, but evidenced by 2 separate Notes.&lt;br&gt;The Notes must be pari passu.</td>
</tr>
<tr>
<td>Securitization</td>
<td>2 separate MBS: 1 for the Senior Mortgage Loan and 1 for the Subordinate Loan.&lt;br&gt;<strong>Additional Disclosure per Form 4098 will be required if a partial release of collateral is permitted for either Mortgage Loan.</strong></td>
<td>1 MBS unless multiple Interest Rate Structures.&lt;br&gt;<strong>Additional Disclosure per Form 4098 must be required if a partial release of collateral is permitted for either Note.</strong></td>
</tr>
<tr>
<td>Hazard Insurance</td>
<td>Coverage based on the combined UPB of the Senior Mortgage Loan and the Subordinate Loan.</td>
<td>Consistent with Senior Mortgage Loans.</td>
</tr>
<tr>
<td>Topic</td>
<td>Split Mortgage Loans</td>
<td>Bifurcated Mortgage Loans</td>
</tr>
<tr>
<td>------------------------------</td>
<td>---------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------</td>
</tr>
<tr>
<td>Title Insurance</td>
<td>Separate title insurance policies for the Senior Mortgage Loan and Subordinate Loan, in the respective amounts of each loan.</td>
<td>Consistent with Senior Mortgage Loans.</td>
</tr>
<tr>
<td>UCC Financing Statements</td>
<td>Filings for both the Senior Mortgage Loan and Subordinate Loan.</td>
<td>Consistent with Senior Mortgage Loans.</td>
</tr>
</tbody>
</table>

**Guidance**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Split Mortgage Loans</th>
<th>Bifurcated Mortgage Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maturity Date</td>
<td>2 Mortgage Loans may have different Maturity Dates if the Subordinate Loan is resubordinated per Part III, Chapter 14: Supplemental Mortgage Loans.</td>
<td>2 Notes may have different Maturity Dates and Yield Maintenance Period End Dates.</td>
</tr>
</tbody>
</table>
Chapter 16  Mezzanine Financing and Preferred Equity

Section 1601  Mezzanine Financing

1601.01  Description

Requirements

A Mortgage Loan with Mezzanine Financing is permitted only if

- the Mezzanine Financing is originated by an approved DUS Lender Affiliate (DLA Mezzanine Financing), or
- Fannie Mae approves the Mezzanine Financing from another source (non-DLA Mezzanine Financing) on a case-by-case basis.

Before underwriting non-DLA Mezzanine Financing, you must contact the Deal Team.

1601.01A  Eligible Mortgage Loans

Requirements

Mortgage Loans with Mezzanine Financing must:

- be newly originated;
- have an original principal balance of at least
  - $10 million, for DLA Mezzanine Financing, or
  - $50 million, for non-DLA Mezzanine Financing;
- be fixed rate; and
- be flagged for MBS additional disclosure per Form 4098.

1601.01B  Eligible Terms

Requirements

Mezzanine Financing must:

- have a fixed rate or fixed mezzanine rate of return without escalations;
- not have a maturity date, redemption date, trigger date, or require repayment of the Mezzanine Financing during the term of the Mortgage Loan; and
- have a minimum $1 million origination balance.
1601.01C  Loss Sharing

☑ Requirements

Loss sharing is required on all Mortgage Loans with Mezzanine Financing.

1601.01D  Lender’s Loan Application

☑ Requirements

Your loan application form must:

- require the Borrower to indicate whether it has or intends to obtain Mezzanine Financing as part of its organizational or capital structure; and
- inform the Borrower that you may delay approval or revoke any prior approval if the Borrower changes its intention to obtain Mezzanine Financing.

1601.02  Underwriting

☑ Requirements

You must comply with the following table.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Requirements</th>
</tr>
</thead>
</table>
| Income Projections | • Provide support for the income projections used to determine the aggregate amount of the Mortgage Loan and Mezzanine Financing.  
                   | • Demonstrate that the local economics are sufficient and sustainable to support both loans. |
| Underwritten NCF  | Use the same Underwritten NCF to determine the loan amount for  
                   | • the Mortgage Loan, and  
<pre><code>               | • the Mezzanine Financing. |
</code></pre>
<table>
<thead>
<tr>
<th>Topic</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refinance Analysis</td>
<td>Prepare a refinance analysis that:</td>
</tr>
<tr>
<td></td>
<td>• incorporates the terms of both the Mortgage Loan and the Mezzanine Financing;</td>
</tr>
<tr>
<td></td>
<td>• demonstrates that the Borrower will - maintain a positive equity position in the Property throughout the term of the Mortgage Loan, or - have some other incentive (e.g., continuing cash flow) to remain committed to the Property and its successful operation; and</td>
</tr>
<tr>
<td></td>
<td>• concludes that there will be sufficient cash flow, NCF growth, and residual value to pay off the Mortgage Loan and the Mezzanine Financing at maturity (as fully extended, if applicable).</td>
</tr>
<tr>
<td>Experience</td>
<td>Ensure that the Sponsor and each Key Principal have sufficient net worth, liquidity, and experience with the Property type and market to justify the origination of the Mortgage Loan and the Mezzanine Financing.</td>
</tr>
<tr>
<td></td>
<td>If upgrades or rehabilitation are being financed by the Mezzanine Financing, then ensure that the Borrower, each Key Principal, and the mezzanine borrower also have</td>
</tr>
<tr>
<td></td>
<td>• sufficient experience managing the scope of the proposed rehabilitation, and • strong property management experience in the local market.</td>
</tr>
<tr>
<td>Mezzanine Borrower Structure</td>
<td>Ensure the mezzanine borrower is</td>
</tr>
<tr>
<td></td>
<td>• a newly-formed, special purpose, bankruptcy-remote limited liability company or limited partnership, • the sole owner of the Borrower, and • wholly-owned by the Principals of the Borrower.</td>
</tr>
<tr>
<td>Topic</td>
<td>Requirements</td>
</tr>
<tr>
<td>-----------------------</td>
<td>------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Appraisal</td>
<td>If the Mezzanine Financing is funding rehabilitation, ensure the Appraisal states the Property’s as-is and as-completed values.</td>
</tr>
<tr>
<td>Third-Party Reports</td>
<td>For Mortgage Loans with DLA Mezzanine Financing, include in the underwriting submission, on behalf of your DL Mezzanine Affiliate any: • internal or third-party inspection reports; • PCAs; and • architects or engineers reports (or other similar reports) related to the Mezzanine Financing.</td>
</tr>
</tbody>
</table>

**Guidance**

You may require a Completion Guaranty (Form 6018).

The DUS Lender Mezzanine Affiliate may also require a completion guaranty from the Mezzanine Financing borrower.

**1601.03 Submission**

**1601.03A Materials**

**Operating Procedures**

You must submit the following in DUS Gateway when you submit the Mortgage Loan underwriting:

- the Mezzanine Financing sizing model;
- a sources and uses of funds reflecting the Mezzanine Financing proceeds;
- any approvals associated with the Mezzanine Financing; and
- for any Mezzanine Financing that finances rehabilitation:  
  - a description of the proposed rehabilitation;
  - the approved rehabilitation budget;
  - the rehabilitation timeline; and
  - the construction or rehabilitation documents.
To obtain a Commitment, you must complete the Mezzanine Financing fields in DUS Gateway.

For each Mortgage Loan with Mezzanine Financing, you and the Mezzanine Financing lender must execute an intercreditor agreement approved by Fannie Mae.

The Borrower must pay the legal fees if Fannie Mae engages outside counsel to review any intercreditor agreements. These fees are non-refundable, and you must pay the counsel retainer when you submit the underwriting.

You may charge the Borrower your own legal and due diligence fees.

You must service, report, and remit on the DLA Mezzanine Financing per Part V.

In all cases, you, as servicer of the DLA Mezzanine Financing, must promptly notify Fannie Mae of any default on the Mezzanine Financing.

Preferred Equity is an equity investment in an entity where the holder is entitled to preferred dividends, distributions, payments, or returns relative to the other equity owners.
Fannie Mae defines 2 types of Preferred Equity.

<table>
<thead>
<tr>
<th>Type</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soft Preferred Equity</td>
<td>Preferred Equity that:</td>
</tr>
<tr>
<td></td>
<td>• only requires preferred payments or returns to the holder if cash flow from the Property is sufficient to make the payments or returns after satisfying the payment, reserve, escrow, and funding obligations of the Mortgage Loan and all Property operating expenses;</td>
</tr>
<tr>
<td></td>
<td>• has organizational documents that explicitly state that the preferred return may accrue if cash flow from operations is insufficient to pay the return; and</td>
</tr>
<tr>
<td></td>
<td>• does not have a maturity date, redemption date, trigger date, or require repayment during the term of the Mortgage Loan.</td>
</tr>
<tr>
<td>Hard Preferred Equity</td>
<td>Preferred Equity that requires preferred payments or returns to the holder, regardless of whether cash flow from the Property is sufficient to make the payments or returns.</td>
</tr>
</tbody>
</table>

1602.01B  Exclusions

 Guidance

This Section does not apply to:

- Soft Preferred Equity that does not benefit from any remedial rights related to the failure to make or pay any preferred payment of return; or
- any Borrower organizational or capital structures relating solely to the allocation of LIHTCs.

For example, Part III, Chapter 16: Mezzanine Financing and Preferred Equity, Section 1602: Preferred Equity does not apply to:

- Soft Preferred Equity that is Preferred Equity only because of "promoted interest" or priority "waterfall" distributions in the organizational structure of the Borrower, but does not otherwise benefit from remedial rights when distributions are not paid or made.
- Instances where a provision in the Borrower’s organizational documents allows or requires a forced sale of the Property to a third party in an arm’s length transaction
if preferred payments or returns are not made, or
for standard non-recourse guaranties.

1602.01C Eligible Mortgage Loans

☑ Requirements

Mortgage Loans with Preferred Equity structures must:
- be newly originated;
- be fixed rate; and
- for Hard Preferred Equity,
  - have an original principal balance of at least $10 million, and
  - be flagged for MBS additional disclosure per Form 4098.

1602.01D Structures

➡ Guidance

Preferred Equity may be structured in a variety of ways, and appear similar to a traditional equity investment, while having rights or remedies similar to debt, such as Mezzanine Financing.

To determine if the Preferred Equity is Soft or Hard, you should analyze the:
- Borrower’s organizational and capital structure;
- Borrower’s applicable joint venture or operating agreement with the Preferred Equity provider; and
- rights and remedies of the direct and indirect equity owners against the Borrower.

1602.01E Limitations

☑ Requirements

Preferred Equity must:
- not have a maturity date, redemption date, trigger date, or require repayment during the term of the Mortgage Loan;
- have a fixed rate of return without escalations during the term of the Mortgage Loan;
- not include cash flow sweeps above the stated return;
not be cross-collateralized with multiple assets;

• for a deal that has both a Hard Preferred Equity return and Soft Preferred Equity return, be underwritten using the total combined preferred return to calculate the DSCR per Form 4660;

• not have intercreditor or recognition agreements between you and the Preferred Equity holder; all rights of the Preferred Equity holder that you recognize must be contained in the Loan Documents;

• not have side letters; all information, terms, and conditions relating to the Preferred Equity must be contained in the organizational documents; and

• for Hard Preferred Equity, not be less than $1 million.

You must underwrite the Preferred Equity as Hard Preferred Equity, if any of the following apply:

• the organizational documents do not explicitly state that the preferred return may accrue if cash flow from operations is insufficient to pay the preferred return;

• there are remedies associated with operating benchmarks such as NCF, NOI, or other operating thresholds;

• there are reserves to ensure the payment of the preferred return; or

• the holder of Preferred Equity benefits from a
  • pledge of the general partner’s or managing member’s interest in the Borrower, or any direct or indirect owner of the Borrower, or
  • guaranty or indemnity from the general partner, managing member, or manager of the Borrower (or any parent or other Person Controlling any of them) with respect to the preferred payment or returns. If a guaranty or indemnity is executed by the Key Principal executing a Guaranty for the Mortgage Loan, the guaranty or indemnity of the preferred payment or returns must be expressly subordinate to the Guaranty for the Mortgage Loan.

1602.01F  Lender’s Loan Application

☑ Requirements

Your loan application form must:

• require the Borrower to indicate whether it has or intends to obtain Preferred Equity as part of its organizational or capital structure; and

• inform the Borrower that you may delay approval or revoke any prior approval if the Borrower changes its intention to obtain Mezzanine Financing.
For any Mortgage Loan with Preferred Equity, you must comply with the following table.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranty</td>
<td>If the holder of the Preferred Equity benefits from a guaranty or similar indemnity that contains recourse events or similar obligations not otherwise contained in the Loan Documents, you must</td>
</tr>
<tr>
<td></td>
<td>• submit the modifications to Fannie Mae for review and approval, and</td>
</tr>
<tr>
<td></td>
<td>• if approved by Fannie Mae, add the events or obligations to the appropriate Loan Document.</td>
</tr>
<tr>
<td>Refinance Analysis</td>
<td>Prepare a refinance analysis that:</td>
</tr>
<tr>
<td></td>
<td>• incorporates the terms of both the Mortgage Loan and the Preferred Equity;</td>
</tr>
<tr>
<td></td>
<td>• demonstrates that the Borrower will</td>
</tr>
<tr>
<td></td>
<td>- maintain a positive equity position in the Property throughout the term of the Mortgage Loan, or</td>
</tr>
<tr>
<td></td>
<td>- have some other incentive (e.g., continuing cash flow) to remain committed to the Property and its successful operation; and</td>
</tr>
<tr>
<td></td>
<td>• concludes that there will be sufficient cash flow, NCF growth, and residual value to pay off the Mortgage Loan and the Preferred Equity (if applicable) at maturity.</td>
</tr>
</tbody>
</table>
### Topic | Requirements
--- | ---
Replacement Guarantor | Identify an acceptable replacement guarantor that complies with the Guide for Key Principals for any Mortgage Loan with • Hard Preferred Equity, and • Soft Preferred Equity if modifications to the transfer provisions of the Loan Documents are requested for the benefit of the Soft Preferred Equity holder.

| Loan Documents | Use the Loan Documents for Preferred Equity per the Loan Documentation Requirements (Form 6000) for any Mortgage Loan with • Hard Preferred Equity, and • Soft Preferred Equity if modifications to the transfer provisions of the Loan Documents are requested for the benefit of the Soft Preferred Equity holder.

---

### 1602.03 Hard Preferred Equity

#### 1602.03A Submission

**Operating Procedures**

You must submit the following in DUS Gateway:

- a sources and uses of funds reflecting the investment of the Hard Preferred Equity holder;
- Exhibit B to the Multifamily Underwriting Certificate (Borrower) (Form 6460.Borrower);
- a complete organizational chart of the Borrower, including upper tier entities or other owners, that shows the respective ownership percentages of Persons holding any
  - direct or indirect control of the management and operations of the Borrower,
  - ownership of a direct or indirect interest of 25% or more in the Borrower, and
  - ownership of any other direct or indirect interest in the Borrower that constitutes Hard Preferred Equity; and
copies of the organizational and other documents that govern the
- Hard Preferred Equity, and
- Hard Preferred Equity holder, including any
  - term sheets,
  - private placement memoranda,
  - operating agreements,
  - pledge agreements,
  - guaranties, or
  - similar arrangements.

1602.03B  Outside Counsel and Due Diligence Fees

🌱 Operating Procedures

The Borrower must pay the legal fees if Fannie Mae engages outside counsel.

These fees are non-refundable, and you must pay the counsel retainer when you submit the underwriting.

➡️ Guidance

You may charge the Borrower your own legal and due diligence fees.
Chapter 17  Structured Transactions

Section 1701  Description

Requirements

Structured Transactions consist of 1 or more Mortgage Loans governed by a master agreement, regardless of individual loan size or cross-collateralization.

There are 2 types of Structured Transactions: Credit Facilities and Bulk Deliveries. The terms for each Structured Transaction vary and are negotiated based on the specific Properties and Sponsor needs.

Section 1702  Credit Facilities

Requirements

A Credit Facility is a Structured Transaction that

- is governed by a Master Credit Facility Agreement, and
- includes cross-collateralized and cross-defaulted Mortgage Loans and Properties.

Guidance

A Credit Facility may also include:

- variable rate debt, fixed rate debt, or a combination of both;
- varied loan maturities and repayment terms;
- the ability to increase borrowing based on
  - increases in the aggregate DSCR, and
  - decreases in the aggregate LTV of the Properties;
- the ability to increase the amount of the Credit Facility by delivering additional Properties as collateral; or
- collateral substitutions and releases.

Requirements

<table>
<thead>
<tr>
<th>Product Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Transaction Size</td>
</tr>
</tbody>
</table>
### Product Description

<table>
<thead>
<tr>
<th>Property Ownership</th>
<th>All Borrowers must be Controlled by the same Sponsor.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fannie Mae Due Diligence Fee</td>
<td>$1,500 for each Property</td>
</tr>
<tr>
<td></td>
<td>• in the initial Credit Facility, and</td>
</tr>
<tr>
<td></td>
<td>• added or substituted post-closing.</td>
</tr>
</tbody>
</table>

#### Operating Procedures

Credit Facilities require intensive Fannie Mae involvement, including the assignment of an in-house legal lead who will direct outside counsel services.

Fannie Mae will engage outside counsel at your expense to prepare all related documentation.

You may require the Borrower to

- pay these legal fees and expenses, and
- fund a deposit for their payment.

### Section 1703 Bulk Deliveries

#### Requirements

A Bulk Delivery is a Structured Transaction that:

- consists of multiple single-asset MBS Mortgage Loans with the same Sponsor that are governed by a Bulk Delivery Agreement; and
- includes the ability to
  - add Mortgage Loans in the future, or
  - substitute a new Property for an existing Property as collateral.

#### Product Description

<table>
<thead>
<tr>
<th>Minimum Transaction Size</th>
<th>Equals:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• $100 million;</td>
</tr>
<tr>
<td></td>
<td>• $75 million with at least 3 Properties; or</td>
</tr>
<tr>
<td></td>
<td>• $55 million with at least 6 Properties.</td>
</tr>
</tbody>
</table>
### Product Description

<table>
<thead>
<tr>
<th>Loss Sharing</th>
<th>Must be the same for all Mortgage Loans, regardless of when they are added to the Bulk Delivery.</th>
</tr>
</thead>
</table>
| Loan Structure | • Each Property collateralizes 1 Mortgage Loan.  
• All Mortgage Loans are uncrossed. |
| Property Ownership | All Borrowers must be Controlled by the same Sponsor. |
| Fannie Mae Due Diligence Fee | $1,500 for each Property added or substituted after the Bulk Delivery Agreement effective date. |
| Additions | Properties may be added for up to 3 years after the Bulk Delivery Agreement effective date. |
| Substitutions | • Each Mortgage Loan may only have 1 Property substitution.  
• Properties must be:  
  - simultaneously released and added; and  
  - substituted only after the first Loan Year until 1 year before the Maturity Date. |
| Substitution Test | A Property may be substituted if the substitute Property's:  
• DSCR is at least the greater of the released Property's  
  - original DSCR, or  
  - DSCR immediately before the release; and  
• LTV does not exceed the lesser of the released Property's  
  - original LTV, or  
  - LTV immediately before the release. |
| Substitution Fee | On or before the release date, you must collect a fee equal to the greater of  
• 50 bps multiplied by the Mortgage Loan's current UPB, or  
• $50,000. |
<table>
<thead>
<tr>
<th>Product Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Releases</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>MBS Disclosure</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Supplemental</strong></td>
</tr>
<tr>
<td><strong>Mortgage Loans</strong></td>
</tr>
<tr>
<td><strong>Assumptions</strong></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

🌿 Operating Procedures

You must use
- the Bulk Delivery Agreement, and
- Fannie Mae's Loan Documents.

Fannie Mae may engage outside counsel at your expense to prepare the Bulk Delivery Agreement or Loan Documents.

You may require the Borrower to
- pay these legal fees, and
- fund a deposit for their payment.
### Choice Refinance Loans

#### Eligibility

A Choice Refinance Loan is a Portfolio Mortgage Loan that is eligible for a streamlined underwriting process which reduces origination costs.

To use the Choice Refinance Loan streamlined underwriting, you must ensure:

<table>
<thead>
<tr>
<th>Topic</th>
<th>Requirements</th>
</tr>
</thead>
</table>
| Prerequisites | • You have been the Servicer of the Portfolio Mortgage Loan for the last 12 months.  
                     • The Choice Refinance Loan complies with Form 4660.  
                     • The Portfolio Mortgage Loan is not in default.  
                     • The Borrower has demonstrated a commitment to its obligations under the Portfolio Mortgage Loan by  
                       - maintaining the Property in good physical condition,  
                       - providing competent Property management services, and  
                       - complying with the requirements under the Loan Documents.  
                     
                     • The Property  
                       - is operating on a stabilized basis,  
                       - has a most recent overall inspection rating of 1 or 2, and  
                       - does not show any adverse change in Property condition, except normal wear and tear, or any life safety issues during the underwriting inspection. |
### Topic Requirements

#### Loan History

- The Portfolio Mortgage Loan:  
  - has a good payment history, with no delinquencies of 60 days or more during the 3 years immediately preceding the proposed refinance;  
  - is not on the current Fannie Mae Watchlist;  
  - had no declared non-monetary defaults that remained uncured for more than 120 days;  
  - was underwritten and delivered per then-applicable Guide provisions; and  
  - is serviced per the Guide.  

- There were no unauthorized assumptions or changes in ownership, and no unauthorized Liens filed against the Property.

#### Additional Collateral

The Portfolio Mortgage Loan does not have a Letter of Credit or additional cash collateral.

#### Pricing

The pricing that was approved for the Portfolio Mortgage Loan does not apply to the Choice Refinance Loan.

#### Underwriting

The Choice Refinance Loan, regardless of the Underwritten DSCR, must be of sufficient credit quality to repay the refinanced Mortgage Loan without individually negotiated debt relief.

---

### Section 1802 Lender Delegation

#### Requirements

You are delegated to underwrite the Choice Refinance Loan if:

- the Portfolio Mortgage Loan and the Choice Refinance Loan fall under the same Pre-Review categories in the Form 4660, and Fannie Mae approved those same Pre-Review categories for the Portfolio Mortgage Loan; or  
- the Choice Refinance Loan falls under the Pre-Review categories in the Form 4660, and has the same structure as the Portfolio Mortgage Loan, even though the Portfolio Mortgage Loan was not a Pre-Review Mortgage Loan when it was Committed.

In addition, you are delegated to approve a Non-Contiguous Parcel structure...
if the same structure was approved for the Portfolio Mortgage Loan.

Section 1803  
Prepayment Premiums

☑ Requirements  
You must not waive any:

- Prepayment Premium based on required yield maintenance; or
- portion of the Minimum 1% Prepayment Premium above the required yield maintenance if the Portfolio Mortgage Loan
  - has a minimum Prepayment Premium other than 1%,
  - will be refinanced before the Yield Maintenance Period End Date, or
  - is a fixed rate MBS Mortgage Loan with an Issue Date before April 1, 1999.

 Guidance  
For all other Choice Refinance Loans:

<table>
<thead>
<tr>
<th>Cash or MBS</th>
<th>You may waive the Minimum 1% Prepayment Premium...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Rate</td>
<td>• after the Yield Maintenance Period End Date, or</td>
</tr>
<tr>
<td></td>
<td>• for declining Prepayment Premiums during the 6</td>
</tr>
<tr>
<td></td>
<td>months before the Maturity Date.</td>
</tr>
<tr>
<td>ARM and SARM</td>
<td>after any lockout if the Portfolio Mortgage Loan</td>
</tr>
<tr>
<td></td>
<td>• is being refinanced with a fixed rate 7- or 10-year term, and</td>
</tr>
<tr>
<td></td>
<td>• was either</td>
</tr>
<tr>
<td></td>
<td>- an ARM Loan with a Plan Number of 02160, 02254,</td>
</tr>
<tr>
<td></td>
<td>02255, 03471, or</td>
</tr>
<tr>
<td></td>
<td>- a SARM Loan with a Plan Number of 03488.</td>
</tr>
</tbody>
</table>

Section 1804  
Streamlined Underwriting

1804.01  Zoning

☑ Requirements  
You must perform a non-conforming use analysis and comply with the
requirements of Part II, Chapter 3: Legal Compliance, Section 301: Zoning and Legal Non-Conforming Uses if the Property has been rezoned since the Mortgage Loan Origination Date of the Portfolio Mortgage Loan

- causing the Property to become a non-conforming use, or
- further restricting the ability of an existing non-conforming use to be rebuilt.

1804.02 Property Condition Assessment (PCA)

**Guidance**

You may use the Streamlined Physical Condition Assessment Requirements (Form 4099.A).

1804.03 Environmental Site Assessment

**Requirements**

A Phase I Environmental Site Assessment is not required if:

- an Environmental Professional performs an environmental database review and identifies no
  - potential environmental concerns (as defined in ASTM E1528 - Standard Practice for Limited Environmental Due Diligence: Transaction Screen), or
  - adverse conditions requiring further due diligence;

- the Borrower enters into an Environmental Indemnity Agreement (Form 6085); and

- you confirm that the Borrower is appropriately implementing any existing O&M Plans for the Property.

1804.04 Survey

**Requirements**

Part II, Chapter 3: Legal Compliance, Section 305: Survey does not apply if the:

- new mortgagee title insurance policy includes all title exceptions, including those that would appear based upon the most recent survey provided by the Borrower (whether it is the original survey for the Portfolio Mortgage Loan or a subsequent one);
Borrower certifies that there have been no changes or improvements to the Property since the later of the date of the survey referenced in the original title policy, or most recently completed; and

Property inspection report reveals no evidence of new construction or encroachments on the site from construction on adjoining properties.

1804.05  Borrower Structure and Experience

☑ Requirements

You must:

☑ Obtain a new Multifamily Underwriting Certificate (Form 6460) from the Borrower, any Guarantor, and any Key Principal.

☑ Obtain updated copies of the organizational documents of the Borrower and the Key Principal, and confirm that the Borrower’s organizational structure complies with Part II, Chapter 3: Legal Compliance.

☑ Confirm that no unauthorized change has been made to the Borrower’s organizational structure or documents.

☑ Obtain a new good standing certificate from the jurisdiction where the Borrower is organized.

1804.06  Borrower Credit

☑ Requirements

You must obtain and review new financial statements for all parties relevant to the transaction.

For Small Mortgage Loans, you must:

☑ confirm that the FICO scores of any such individuals comply with Part III, Chapter 9: Small Mortgage Loans, Section 911.02: FICO Scoring; and

☑ ensure that the net worth and liquidity complies with Part III, Chapter 9: Small Mortgage Loans, Section 910.06: Net Worth and Liquid Assets.

 Guidance

If the Borrower or any Key Principal, Guarantor, or Principal submitted financial statements within the past 12 months, then in lieu of new financial statements, you may accept a certification that there has been no material
adverse change from the financial condition or credit standing reflected in the financial statements.

### 1804.07 Property Management

#### Guidance

You may elect not to review the Property management or agreement per Part II, Chapter 1: Attributes and Characteristics, Section 111: Property Management and Agreement.

### 1804.08 Replacement Reserve

#### Requirements

You must ensure the Replacement Reserve is funded as follows:

<table>
<thead>
<tr>
<th>If...</th>
<th>Then...</th>
</tr>
</thead>
</table>
| The Property  
  - is located in a Pre-Review Market that is not eligible for delegation at any Tier per Section II of the Form 4660, and  
  - the market was a Pre-Review Market when the Portfolio Mortgage Loan was originated. | The Borrower must fully fund the Replacement Reserve. |
| The Property  
  - is located in a Pre-Review Market that is not eligible for delegation at any Tier per Section II of the Form 4660, but  
  - the market was not a Pre-Review Market when the Portfolio Mortgage Loan was originated. | You must determine the Replacement Reserve funding per Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve. |
<table>
<thead>
<tr>
<th>If...</th>
<th>Then...</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Property is located in</td>
<td>You must determine the Replacement Reserve funding per Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve.</td>
</tr>
<tr>
<td>• a Strong Market,</td>
<td></td>
</tr>
<tr>
<td>• a Nationwide Market, or</td>
<td></td>
</tr>
<tr>
<td>• a Pre-Review Market that is eligible for Tier 3 and Tier 4</td>
<td></td>
</tr>
<tr>
<td>Mortgage Loans on a delegated basis per Section II of the Form 4660.</td>
<td></td>
</tr>
</tbody>
</table>

**1804.09 Real Estate Tax and Insurance Escrows**

☑️ **Requirements**

You must require T&I escrow deposits for a Tier 2 Choice Refinance Loan unless Fannie Mae waived the T&I escrow for the Portfolio Mortgage Loan. If you do not require T&I escrow deposits, then you must comply with Part II, Chapter 4: Inspections and Reserves, Section 405: Escrow Requirements for Taxes and Insurance.

**Section 1805 Property Ownership Change**

➡️ **Guidance**

If at the time of the refinance of the Portfolio Mortgage Loan the Property is being sold to a new owner, then you may use the streamlined underwriting per Part III, Chapter 18: Choice Refinance Loans, Section 1804.01: Zoning, Part III, Chapter 18: Choice Refinance Loans, Section 1804.02: Property Condition Assessment (PCA), and Part III, Chapter 18: Choice Refinance Loans, Section 1804.03: Environmental Site Assessment provided that you comply with Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals for underwriting the Borrower, Key Principals, Guarantors, and Principals.

You may also use the streamlined underwriting per Part III, Chapter 18: Choice Refinance Loans, Section 1801: Eligibility for Portfolio Mortgage Loans that were assumed before being refinanced as a Choice Refinance Loan.
Chapter 19  Bond Transactions and Credit Enhancement Mortgage Loans

Section 1901  Description

 Guidance

A Bond credit enhancement may involve

- a Standby Credit Enhancement Instrument,
- a Direct Pay Credit Enhancement Instrument,
- a secondary market Credit Enhancement Instrument, or
- an MBS.

In addition to credit enhancing the Bonds, both the Standby Credit Enhancement Instrument and the Direct Pay Credit Enhancement Instrument may provide

- liquidity support, and
- if the Bonds are issued under an Open Indenture, credit enhancement of the Mortgage Loan.

 Requirements

You must coordinate all aspects of a Credit Enhancement Mortgage Loan transaction with your counsel and Fannie Mae’s counsel.

For Bonds that are privately placed or purchased directly, you must consult with the Fannie Mae Deal Team and Fannie Mae’s counsel for pricing and disclosure requirements.

For a Forward Commitment Credit Enhancement Mortgage Loan, you must also comply with Part III, Chapter 20: Forward Commitments.

<table>
<thead>
<tr>
<th>Terms</th>
<th>Credit Enhancement Instrument</th>
<th>MBS for Bonds</th>
</tr>
</thead>
</table>
| Fannie Mae Guarantees         | • Bond P&I for Closed Indenture Bonds.  
                                   • Mortgage Loan P&I for Open Indenture Bonds.  
                                   • Up to 25 basis points of Bond Issuer fees. | Bond P&I. |
<table>
<thead>
<tr>
<th>Terms</th>
<th>Credit Enhancement Instrument</th>
<th>MBS for Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basis</td>
<td>Either</td>
<td>Direct Pay.</td>
</tr>
<tr>
<td></td>
<td>• Standby, or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Direct Pay.</td>
<td></td>
</tr>
<tr>
<td>Interest Rate Type</td>
<td>Either</td>
<td>Either</td>
</tr>
<tr>
<td></td>
<td>• fixed rate, or</td>
<td>• fixed rate,</td>
</tr>
<tr>
<td></td>
<td>• variable rate Bonds.</td>
<td>• variable rate Bonds</td>
</tr>
<tr>
<td>Documents</td>
<td>• Any new Bond issued must be documented on Fannie Mae Bond and Loan Document forms.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• For substitute credit enhancements where the existing Bonds remain outstanding, the existing Bond and Loan Documents must be:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- amended and restated on Fannie Mae form documents; or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- amended only as necessary per Fannie Mae.</td>
<td></td>
</tr>
<tr>
<td>Credit Enhancement Timing</td>
<td>Credit Enhancement Instrument is delivered</td>
<td>Mortgage Loan is originated with Bond issuance and the MBS, when issued, is deposited with the Bond Trustee.</td>
</tr>
<tr>
<td></td>
<td>• on the Bond issuance date for a new Bond, or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• when Fannie Mae provides new or substitute credit enhancement.</td>
<td></td>
</tr>
</tbody>
</table>

### Section 1902  Outside Counsel

#### 1902.01  Engagement

**Requirements**

You must request Fannie Mae’s outside counsel assignment before any transaction structuring discussions begin.

**Operating Procedures**
To request Fannie Mae’s outside counsel assignment, submit a Counsel Designation Request (Form 4625.B) to counsel_designations@fanniemae.com.

Fannie Mae selects its own outside counsel but may consider your request for a specific counsel.

### 1902.02 Fees

#### Requirements

You must pay Fannie Mae’s outside counsel fees and costs regardless of whether the transaction closes.

#### Guidance

You may charge the Borrower for Fannie Mae’s outside counsel fees and costs.

For a Credit Enhancement Instrument, you may choose to have Fannie Mae’s outside counsel

- prepare the Loan Documents, and
- review title insurance and survey matters.

If Fannie Mae’s outside counsel performs these services:

- the counsel will only represent Fannie Mae, not you; and
- you will be responsible for the additional fees.

### Section 1903 Third Parties

#### 1903.01 Generally

#### Requirements

You must coordinate with all third parties and their counsels to ensure the transaction complies with their requirements.

Fannie Mae reserves the right, in its sole discretion, to reject any third party’s involvement, including:

- Bond Issuer;
- Bond Trustee;
- Bond underwriter;
- any Remarketing Agent;
1903.02 Remarketing Agent

**Requirements**

You must ensure any Remarketing Agent:

- currently remarkets at least $250 million of weekly variable rate demand Bonds;
- has continuously remarketed weekly variable rate demand Bonds for the past 3 years;
- has a minimum net worth of $5 million; and
- has a minimum broker line of credit sufficient for warehousing $100 million of rated Bonds at any time.

**Operating Procedures**

Fannie Mae’s counsel must confirm that the Remarketing Agreement terms comply with Fannie Mae requirements.

Section 1904 Legal Documents

1904.01 Generally

**Operating Procedures**

Fannie Mae’s counsel will advise your counsel regarding the appropriate Fannie Mae Loan Documents for the Bond structure.

Immediately after Bond closing, you must:

- obtain a final Bond transcript from Bond counsel;
- submit it via CD to Multifamily Certification and Custody; and
- maintain a copy in your Servicing File.

1904.02 Credit Enhancement Instrument

**Guidance**

Fannie Mae’s Credit Enhancement Instrument Loan Documents presume the Bond Issuer will:
be the initial lender and secured party under the Security Instrument; and

immediately assign the Multifamily Bond Note and Security Instrument to Fannie Mae and the Bond Trustee, as co-assignees.

Requirements

You must ensure that Fannie Mae (not you or the Bond Issuer) is named as the counterparty or beneficiary in the Credit Enhancement Mortgage Loan agreements and collateral assignments.

Operating Procedures

Fannie Mae and its counsel will:

- prepare the
  - Credit Enhancement Commitment Letter,
  - credit enhancement documents,
  - multifamily Note; and

- review and approve all Bond documents.

You may ask Fannie Mae’s counsel to also prepare other Loan Documents, or your counsel may prepare these documents.

1904.03 MBS for Bonds

Operating Procedures

The MBS For Bonds loan structure is identical to a standard Mortgage Loan. Your counsel must:

- Prepare the standard 6000 series Loan Documents.
- Consult with Fannie Mae’s counsel to
  - integrate the standard Loan Document provisions into the Bond transaction structure, and
  - incorporate any Bond related modifications into the Loan Documents.

1904.04 Affordable Regulatory Agreements

Operating Procedures

1. If an Affordable Regulatory Agreement must be recorded before the
Security Instrument to ensure the Bond’s tax-exempt status, Fannie Mae’s counsel will provide an Affordable Regulatory Agreement rider subordinating it to the Security Instrument.

2. You must ensure the Bond Issuer attaches the rider to the Affordable Regulatory Agreement.

Section 1905  Fannie Mae LIHTC Investment in Credit-Enhanced Bonds

Guidance

Per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 710.02: Fannie Mae Credit-Enhanced Tax-Exempt Bond Issuance, Fannie Mae may be a LIHTC investor in the Borrower for a project financed by tax-exempt Bonds that Fannie Mae will also be credit enhancing. To avoid potential adverse tax consequences, if Fannie Mae is a LIHTC investor on a Credit Enhancement Mortgage Loan, Fannie Mae’s counsel will prepare the LIHTC agreement among the

- Bond Issuer,
- Borrower, and
- Fannie Mae.

Requirements

You must determine if Fannie Mae will be a LIHTC investor on a Credit Enhancement Mortgage Loan. If so, you must confirm:

- Fannie Mae does not hold a direct equity interest in the Borrower;
- Fannie Mae’s indirect equity interest in the Borrower is less than 50%;
- the IRS documentation filed for the Bond issuance shows that none of the Bond proceeds were applied to pay any portion of Fannie Mae’s Credit Enhancement Fee;
- the Bond Issuer, Borrower, and Fannie Mae enter into a LIHTC agreement acknowledging Fannie Mae’s equity interest; and
- any LIHTC agreement required notices to the Borrower and Bond Issuer were provided.

Section 1906  Credit Enhancing Fixed Rate Bonds

1906.01 Terms

Requirements
<table>
<thead>
<tr>
<th>Terms</th>
<th>Credit Enhancement Instrument</th>
<th>MBS for Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate Reset</td>
<td>• Used if the Bonds - have a fixed rate for a specified period before maturity, and - require remarketing on scheduled mandatory tender dates. • Occurs after the fixed rate period per the Bond and Loan Documents.</td>
<td>Not available.</td>
</tr>
<tr>
<td>Loan Term</td>
<td>Credit Enhancement Mortgage Loan must:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• for a Property with new 4% LIHTCs, have a term of at least 10 years, with a maximum of 30 years; or • for a Property without new 4% LIHTCs, have a term less than or equal to the Bond term, with a maximum of 30 years.</td>
<td></td>
</tr>
<tr>
<td>Fannie Mae Fees</td>
<td>Credit Enhancement Fee</td>
<td>Guaranty Fee</td>
</tr>
<tr>
<td></td>
<td>Underwritten as</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• an operating expense, or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• part of the Gross Note Rate.</td>
<td></td>
</tr>
<tr>
<td>Trustee Fee and Bond Issuer Fee</td>
<td>Sum of the • Bond interest rate, • Facility Fee (calculated per Part III, Chapter 19: Bond Transactions and Credit Enhancement Mortgage Loans, Section 1908: Facility Fee) divided by the Bond UPB, and • trustee fee and Bond Issuer fee, if they are not underwritten as an operating expense.</td>
<td>Sum of the • Bond interest rate, • Guaranty Fee, and • Servicing Fee.</td>
</tr>
</tbody>
</table>
Multiple Fixed Rate Bonds

Operating Procedures

If the fixed rate Bond issue has multiple Bonds with different maturity dates and interest rates, the fixed rate for the entire Bond issue will be the weighted average of the individual Bond rates, and considering the different maturities.

Credit Enhancing Variable Rate Bonds

Terms

Guidance

Fannie Mae does not provide liquidity support for variable rate demand Bonds.

Requirements

<table>
<thead>
<tr>
<th>Terms</th>
<th>Credit Enhancement Instrument</th>
<th>MBS for Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable Interest Rate</td>
<td>A Bond and Credit Enhancement Mortgage Loan must have an interest rate linked to</td>
<td>• Mortgage Loan must comply with Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans.</td>
</tr>
<tr>
<td></td>
<td>• the SIFMA Municipal Swap Index,</td>
<td>• Bonds must have an interest rate linked to a SOFR-based index.</td>
</tr>
<tr>
<td></td>
<td>• an Index that adjusts weekly, or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• a SOFR-based index.</td>
<td></td>
</tr>
<tr>
<td>Bond Liquidity</td>
<td>You must obtain Fannie Mae approval for any third party providing Bond liquidity support.</td>
<td></td>
</tr>
<tr>
<td>Terms</td>
<td>Credit Enhancement Instrument</td>
<td>MBS for Bonds</td>
</tr>
<tr>
<td>---------------------</td>
<td>-----------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>No New 4% LIHTCs</td>
<td>Credit Enhancement Mortgage Loan must have a term of at least 5 years, with a maximum of 30 years.</td>
<td>Credit Enhancement Mortgage Loan must have a:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• term of at least 5 years, with a maximum of 30 years; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Maturity Date coinciding with the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- final Bond maturity date, adjusted for applicable payment timing differences, or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- initial Bond tender and remarketing, if the Bond has a scheduled mandatory tender date for remarketing.</td>
</tr>
<tr>
<td>New 4% LIHTCs</td>
<td>Credit Enhancement Mortgage Loan must have a term of at least 10 years, with a maximum of 30 years.</td>
<td>Credit Enhancement Mortgage Loan must have a:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• term of at least 10 years, with a maximum of 30 years; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Maturity Date coinciding with the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- final Bond maturity date, adjusted for applicable payment timing differences, or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- initial Bond tender and remarketing, if the Bond has a scheduled mandatory tender date for remarketing.</td>
</tr>
<tr>
<td>Variable Underwriting Rate</td>
<td>Determined by Fannie Mae.</td>
<td>Per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans.</td>
</tr>
<tr>
<td>Terms</td>
<td>Credit Enhancement Instrument</td>
<td>MBS for Bonds</td>
</tr>
<tr>
<td>-----------------------</td>
<td>-----------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Amortization</td>
<td>For a variable rate Credit Enhancement Mortgage Loan using an Interest Rate Cap, use the greater of the • Variable Underwriting Rate, or • actual Cap Strike Rate.</td>
<td>Per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans.</td>
</tr>
<tr>
<td>Maximum SARM Loan</td>
<td>Per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans.</td>
<td></td>
</tr>
<tr>
<td>PRF</td>
<td>You must establish a PRF.</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>Fannie Mae Fees</td>
<td>Credit Enhancement Fee.</td>
<td>Guaranty Fee.</td>
</tr>
<tr>
<td>Trustee Fee and Bond Issuer Fee</td>
<td>Underwritten as • an operating expense, or • part of the Gross Note Rate.</td>
<td>Underwritten as an operating expense.</td>
</tr>
<tr>
<td>Gross Note Rate</td>
<td>Sum of the • Bond interest rate, • Facility Fee (calculated per Part III, Chapter 19: Bond Transactions and Credit Enhancement Mortgage Loans, Section 1908: Facility Fee) divided by the Bond UPB, • trustee fee and Bond Issuer fee, if they are not underwritten as an operating expense, and • cap cost factor.</td>
<td>Sum of the • Bond interest rate, • Guaranty Fee, and • Servicing Fee.</td>
</tr>
</tbody>
</table>

**1907.02 Principal Reserve Fund**

- Operating Procedures
### Topics

<table>
<thead>
<tr>
<th>Principal Reserve Fund Process</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Borrower Election</strong></td>
</tr>
<tr>
<td>Before Commitment, the Borrower must select 1 of the following options to redeem Bonds:</td>
</tr>
<tr>
<td>• Minimum Dollar Balance:</td>
</tr>
<tr>
<td>- Required option for a non-single-asset entity Borrower.</td>
</tr>
<tr>
<td>- PRF deposits accumulate until the balance is at least $100,000.</td>
</tr>
<tr>
<td>- Bonds eligible for redemption are redeemed in $100,000 increments.</td>
</tr>
<tr>
<td>• Minimum Percentage Balance:</td>
</tr>
<tr>
<td>- PRF deposits accumulate until the balance is at least $100,000 greater than 20% of the original Bond principal amount.</td>
</tr>
<tr>
<td>- Bonds eligible for redemption are redeemed in $100,000 increments, but the redemption payments may not reduce the PRF balance below 20% of the original Bond principal amount.</td>
</tr>
<tr>
<td><strong>PRF Deposit Amount</strong></td>
</tr>
<tr>
<td>PRF deposits represent the principal amortization amount of the Credit Enhancement Mortgage Loan based on</td>
</tr>
<tr>
<td>• level P&amp;I payments throughout the Bond term, and</td>
</tr>
<tr>
<td>• amortization per Part III, Chapter 19: Bond Transactions and Credit Enhancement Mortgage Loans, Section 1907.01: Terms.</td>
</tr>
<tr>
<td><strong>PRF Deposit Schedule</strong></td>
</tr>
<tr>
<td>On the Mortgage Loan Origination Date, you must calculate and attach the Schedule of Deposits to the Principal Reserve Fund to the Reimbursement Agreement.</td>
</tr>
</tbody>
</table>

---

**1907.03 Interest Rate Cap**

- Requirements
<table>
<thead>
<tr>
<th>Terms</th>
<th>You must ensure the third-party Interest Rate Cap...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate Cap</td>
<td>For a variable rate Credit Enhancement Mortgage Loan with variable rate Bonds, is purchased and maintained for the entire time the variable rate Bonds are credit enhanced.</td>
</tr>
<tr>
<td>Index</td>
<td>Has the same Index as the variable rate Bonds.</td>
</tr>
<tr>
<td>Interest Rate Cap Provider</td>
<td>Is obtained from an approved provider listed on <a href="https://multifamily.fanniemae.com">https://multifamily.fanniemae.com</a>.</td>
</tr>
<tr>
<td>Initial Interest Rate Cap</td>
<td>Notional Amount equals the Bond UPB when the Interest Rate Cap is purchased.</td>
</tr>
<tr>
<td>Minimum Interest Rate Cap Term</td>
<td>Agreement remains continually in place until the earlier of • 5 years, or • the remaining Bond term.</td>
</tr>
<tr>
<td>Replacement Cap</td>
<td>Replacement is purchased if the existing Interest Rate Cap expires before the variable rate Bond conversion or Maturity Date.</td>
</tr>
<tr>
<td>Replacement Cap Strike Rate</td>
<td>Replacement Cap Strike Rate is the same or lower than the initial Interest Rate Cap Strike Rate.</td>
</tr>
<tr>
<td>Cap cost factor</td>
<td>Cost factor is included in the Variable Underwriting Rate per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.03: Including the Cap Cost Factor in the Variable Underwriting Rate.</td>
</tr>
<tr>
<td>Interest Rate Cap Reserve Adjustment</td>
<td>Cash reserve: • is evaluated at the end of each 12-month period to determine if the cost of the replacement Interest Rate Cap has increased, based on market conditions; and • future deposits are not decreased even if the future Interest Rate Cap cost has decreased.</td>
</tr>
</tbody>
</table>
### Terms

<table>
<thead>
<tr>
<th><strong>Documents</strong></th>
<th><strong>You must ensure the third-party Interest Rate Cap...</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Documents are:</strong></td>
<td></td>
</tr>
<tr>
<td>• on acceptable forms; and</td>
<td></td>
</tr>
<tr>
<td>• delivered to Fannie Mae, including the</td>
<td></td>
</tr>
<tr>
<td>- Interest Rate Cap Agreement, and</td>
<td></td>
</tr>
<tr>
<td>- Interest Rate Cap Reserve and Security Agreement (Form 6442).</td>
<td></td>
</tr>
</tbody>
</table>

#### Operating Procedures

Fannie Mae will engage outside counsel at your expense to review all Interest Rate Cap-related documents.

### 1907.04 Cap Strike Rate

#### Operating Procedures

The Borrower must purchase an Interest Rate Cap with a Cap Strike Rate that is determined

- for a Credit Enhancement Instrument, by Fannie Mae, or
- for an MBS for Bonds, per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.02: Determining the Cap Strike Rate.

### 1907.05 Interest Rate Cap Reserve

#### Requirements

You must ensure the Borrower fully funds a cash reserve to purchase replacement Interest Rate Caps.

#### Operating Procedures

- If the initial Interest Rate Cap Agreement term is 5 years, you must ensure the Borrower funds the cash reserve with each monthly Mortgage Loan payment during the term.
- Calculate the monthly reserve payments for the first 12 months using the estimated cost of a replacement Interest Rate Cap with a 5-year term and the initial Cap Strike Rate.
If the initial Interest Rate Cap term is more than 5 years, you must ensure the Borrower's monthly reserve payments for the replacement cap begin no later than 5 years before the existing Interest Rate Cap expires.

**Guidance**

For example, if

- a 5-year initial Interest Rate Cap is purchased with a 10-year term and a 6.00% Cap Strike Rate, and
- the cost of a replacement 5-year cap with a 6.00% Cap Strike Rate is $140,000, then
- the monthly reserve for the first 12 months would be $2,333.33 ($140,000 cost ÷ 60 months).

### 1907.06 Interest Rate Cap Reserve Adjustments

**Requirements**

You must evaluate the Interest Rate Cap reserve every 12 months. If the replacement Interest Rate Cap cost:

- increased, you must raise the monthly reserve payment to purchase the replacement Interest Rate Cap before the existing Interest Rate Cap expires; or
- decreased, do not adjust the reserve.

When a replacement Interest Rate Cap is purchased, the reserve cycle resets to match the term of the new Interest Rate Cap. Any amount remaining in the reserve after purchasing the replacement Interest Rate Cap must be used to fund the subsequent reserve.

### 1907.07 Interest Rate Cap Contract Documentation and Delivery

**Requirements**

For credit enhancements using:

- an MBS, you must comply with Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.05: Interest Rate Cap Contract Documentation and Delivery; or
- a Credit Enhancement Instrument, this Section applies.
<table>
<thead>
<tr>
<th>Topic</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cap Provider Payment</td>
<td>You must ensure the Interest Rate Cap provider pays you or the Bond Trustee directly</td>
</tr>
<tr>
<td></td>
<td>• on the 1st or 15th day of the month corresponding with the Bond payment dates, and</td>
</tr>
<tr>
<td></td>
<td>• when the Bond interest rate index is greater than the average Cap Strike Rate for a month.</td>
</tr>
<tr>
<td></td>
<td>Only disburse a provider payment to the Borrower if</td>
</tr>
<tr>
<td></td>
<td>• there is no Mortgage Loan default, and</td>
</tr>
<tr>
<td></td>
<td>• you received all payments due under the Indenture and Bonds for that month.</td>
</tr>
<tr>
<td></td>
<td>If the Borrower defaults under the Mortgage Loan or Reimbursement Agreement, you must</td>
</tr>
<tr>
<td></td>
<td>• promptly notify Fannie Mae and any applicable Bond Trustee, and</td>
</tr>
<tr>
<td></td>
<td>• direct the Bond Trustee to suspend its payment to the Borrower.</td>
</tr>
<tr>
<td>Timing</td>
<td>The Borrower must accept a bid for the initial Interest Rate Cap in writing from a Fannie Mae approved provider before you request a Commitment.</td>
</tr>
<tr>
<td>Purchase Price</td>
<td>The Borrower must pay the entire purchase price for an Interest Rate Cap to the provider when the Interest Rate Cap Agreement is issued.</td>
</tr>
<tr>
<td>Pledge to Fannie Mae</td>
<td>The Borrower must pledge its interest in the Interest Rate Cap and any reserve to Fannie Mae using the documentation provided by Fannie Maes counsel.</td>
</tr>
</tbody>
</table>

**Section 1908** Facility Fee

For Credit Enhancement Instruments, you must calculate the Facility Fee as follows:
### FACILITY FEE CALCULATION

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CREDIT ENHANCEMENT FEE / GUARANTY FEE CALCULATION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>• Applicable Credit Enhancement Fee, or • Guaranty Fee</td>
<td>MULTIPLIED BY Credit Enhancement Mortgage Loan UPB</td>
</tr>
<tr>
<td></td>
<td>MINUS PRF balance, excluding interest</td>
<td>EQUALS Credit Enhancement Fee / Guaranty Fee</td>
</tr>
<tr>
<td><strong>SERVICING FEE CALCULATION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Servicing Fee</td>
<td>MULTIPLIED BY Credit Enhancement Mortgage Loan UPB</td>
</tr>
<tr>
<td></td>
<td>MINUS PRF balance, excluding interest</td>
<td>EQUALS Servicing Fee</td>
</tr>
<tr>
<td><strong>PRF FEE CALCULATION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>For variable rate Bonds, PRF Fee Rate</td>
<td>MULTIPLIED BY PRF balance, excluding interest</td>
</tr>
<tr>
<td></td>
<td>EQUALS PRF Fee</td>
<td></td>
</tr>
<tr>
<td><strong>BOND LIQUIDITY FEE CALCULATION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>For variable rate Bonds, Bond Liquidity Fee Rate</td>
<td>MULTIPLIED BY Bond UPB</td>
</tr>
<tr>
<td></td>
<td>EQUALS Bond Liquidity Fee</td>
<td></td>
</tr>
</tbody>
</table>
### FACILITY FEE CALCULATION

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td></td>
<td>Credit Enhancement Fee / Guaranty Fee</td>
</tr>
<tr>
<td>PLUS</td>
<td>Servicing Fee</td>
<td></td>
</tr>
<tr>
<td>PLUS</td>
<td>any PRF Fee</td>
<td></td>
</tr>
<tr>
<td>PLUS</td>
<td>any Bond Liquidity Fee</td>
<td></td>
</tr>
<tr>
<td>EQUALS</td>
<td></td>
<td>Facility Fee</td>
</tr>
</tbody>
</table>

### Section 1909  
Taxable Tails and Supplemental Mortgage Loans

#### 1909.01 Taxable Tails

#### Requirements

<table>
<thead>
<tr>
<th>Terms</th>
<th>A Taxable Tail must...</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Structure</strong></td>
<td>Be fixed or variable rate debt structured as</td>
</tr>
<tr>
<td></td>
<td>• Bonds,</td>
</tr>
<tr>
<td></td>
<td>• a Cash Mortgage Loan, or</td>
</tr>
<tr>
<td></td>
<td>• an MBS Mortgage Loan.</td>
</tr>
<tr>
<td><strong>Underwriting and Loss Sharing</strong></td>
<td>Be treated with the Credit Enhancement Mortgage Loan</td>
</tr>
<tr>
<td></td>
<td>• as a single combined Mortgage Loan, and</td>
</tr>
<tr>
<td></td>
<td>• with a blended weighted average Underwritten DSCR, LTV, interest rate, etc., based on the combined UPB of the tax-exempt and taxable debt.</td>
</tr>
<tr>
<td><strong>Cross Provisions</strong></td>
<td>Be cross-collateralized and cross-defaulted with the Credit Enhancement Mortgage Loan</td>
</tr>
<tr>
<td><strong>MBS Mortgage Loan</strong></td>
<td>Have Additional Disclosure.</td>
</tr>
<tr>
<td><strong>Maturity and Prepayment</strong></td>
<td>• Mature no earlier than the Credit Enhancement Mortgage Loan.</td>
</tr>
<tr>
<td></td>
<td>• Be fully repaid before the Credit Enhancement Mortgage Loan is prepaid.</td>
</tr>
</tbody>
</table>

#### Operating Procedures
A Taxable Tail usually fully amortizes over its loan term. This may require “hyper-amortization” where all principal payments are applied

- first to the Taxable Tail until it fully amortizes, and
- then to the tax-exempt debt.

**1909.02 Supplemental Mortgage Loans**

**Requirements**

You must ensure any Supplemental Mortgage Loan:

- is taxable debt that is cross-collateralized and cross-defaulted with the Credit Enhancement Mortgage Loan Property;
- is originated after the Credit Enhancement Mortgage Loan;
- complies with the Bond documents; and
- is properly disclosed to Investors.

**Section 1910 Third-Party Subordinate Financing**

**Requirements**

For third-party subordinate financing, you must comply with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704: Subordinate Financing.

**Section 1911 Moderate Rehabilitation Mortgage Loan with Side-by-Side Bond Financing**

**Guidance**

Fannie Mae may purchase a Moderate Rehabilitation Mortgage Loan for an MAH Property when the Borrower separately obtains side-by-side Bond financing. Since Fannie Mae does not credit enhance the Bonds, you may use your own outside counsel.

**Requirements**

For a Moderate Rehabilitation Mortgage Loan with side-by-side Bond financing, you must ensure the Bonds

- have a shorter term than the Mortgage Loan,
- are fixed rate,
- are tax-exempt,
- are 100% secured by cash collateral, and
- are not secured by the MAH Property.
Chapter 20  Forward Commitments

Section 2001  Generally

2001.01  Description

☑ Requirements

You must Deliver a permanent Mortgage Loan that complies with the Forward Commitment Confirmation.

2001.02  Eligible Properties

☑ Requirements

A Property undergoing new construction or substantial rehabilitation is eligible for a Forward Commitment. Property substitutions are not permitted.

Section 2002  Funded Forward Commitments

➡ Guidance

You may contact the Fannie Mae Deal Team for funded Forward Commitment information.

Section 2003  Unfunded Forward Commitments

2003.01  Terms and Interest Rate Determination

2003.01A  Terms

☑ Requirements

<table>
<thead>
<tr>
<th>Terms</th>
<th>Unfunded Forward Commitment Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forward Commitment Term</td>
<td>30-month maximum for construction and lease up, unless extended per Part III, Chapter 20: Forward Commitments, Section 2003.05C: Forward Commitment Extensions.</td>
</tr>
</tbody>
</table>
### 2003.01B Interest Rate Determination and Rate Lock

#### Guidance

The interest rate for a permanent Mortgage Loan is determined:

- with a Rate Lock as of the Forward Commitment date; or
- for a Forward Commitment on a Credit Enhancement Mortgage Loan, at Bond pricing per Part IV, Chapter 8: Bond Transactions and Credit Enhancement Mortgage Loans, Section 801.04: Rate Lock.

#### Operating Procedures

You must

- set the Guaranty Fee and Servicing Fee at Rate Lock, and
- ensure they are paid only on the permanent Mortgage Loan.

No Guaranty Fee or Servicing Fee will be charged during the construction period.

---

### 2003.02 Good Faith Deposit and Fees
2003.02A Good Faith Deposit

☑ Requirements

You must collect the Good Faith Deposit from the Borrower per

- Part IV, Chapter 2: Rate Lock and Committing, Section 203.01: Borrower Deposit, and
- Part IV, Chapter 2: Rate Lock and Committing, Section 203.02: Minimum Good Faith Deposit.

2003.02B Fees

☑ Requirements

The following fees apply to Forward Commitments.

<table>
<thead>
<tr>
<th>Fees</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standby Fee</td>
<td>For the Forward Commitment term, the fee is:</td>
</tr>
<tr>
<td></td>
<td>• per the Forward Commitment; and</td>
</tr>
<tr>
<td></td>
<td>• due when the Forward Commitment is confirmed.</td>
</tr>
<tr>
<td>Standby Extension Fee</td>
<td>For each extension contemplated in the Forward Commitment, the fee is:</td>
</tr>
<tr>
<td></td>
<td>• per the Forward Commitment; and</td>
</tr>
<tr>
<td></td>
<td>• due when Fannie Mae processes the extension.</td>
</tr>
<tr>
<td></td>
<td>Any additional extension terms and fees are at Fannie Mae discretion.</td>
</tr>
<tr>
<td>Rate Lock Extension Fee</td>
<td>For a Forward Commitment not involving a Credit Enhancement Mortgage Loan, per Part IV, Chapter 2: Rate Lock and Committing, Section 204.03B: Rate Lock Extensions and the Pricing Memo.</td>
</tr>
<tr>
<td>Fees</td>
<td>Requirements</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Non-Delivery Fee</td>
<td>If the conversion conditions are not met or the permanent Mortgage Loan is not Delivered per the Forward Commitment, the fee is:</td>
</tr>
<tr>
<td></td>
<td>• for:</td>
</tr>
<tr>
<td></td>
<td>- a Forward Commitment involving a Credit Enhancement Mortgage Loan, per the Credit Enhancement Commitment Letter; or</td>
</tr>
<tr>
<td></td>
<td>- all other Forward Commitments, per Form 4210; and</td>
</tr>
<tr>
<td></td>
<td>• drafted from your account on the earlier of the Forward Commitments</td>
</tr>
<tr>
<td></td>
<td>- expiration date, or</td>
</tr>
<tr>
<td></td>
<td>- termination by Fannie Mae.</td>
</tr>
<tr>
<td>Shortfall Fee</td>
<td>For a Forward Commitment not involving a Credit Enhancement Mortgage Loan, if the permanent Mortgage Loan closes, but its original principal amount is less than 90% of the maximum Mortgage Loan amount, the fee is:</td>
</tr>
<tr>
<td></td>
<td>• per Form 4210; and</td>
</tr>
<tr>
<td></td>
<td>• drafted from your account by the permanent Mortgage Loan closing.</td>
</tr>
<tr>
<td>Origination Fee;</td>
<td>You must:</td>
</tr>
<tr>
<td>Construction Loan</td>
<td>• charge the Borrower:</td>
</tr>
<tr>
<td>Administration Fee</td>
<td>- an Origination Fee per the Pricing Memo; and</td>
</tr>
<tr>
<td></td>
<td>- a Construction Loan Administration Fee covering the actual loan administration costs, but no less than $500 per month; and</td>
</tr>
<tr>
<td></td>
<td>• not pay these fees to Fannie Mae.</td>
</tr>
</tbody>
</table>
2003.03A Generally

☑️ Requirements

You must:

- Underwrite, originate, and service a Forward Commitment Mortgage Loan as if it were an immediate funding Mortgage Loan.
- Agree to issue the Borrower Commitment.
- Determine the construction lender has
  - completed its underwriting, and
  - agreed to issue a construction financing commitment.
- Confirm the Investor will
  - issue its commitment to purchase the MBS, and
  - meet the Forward Commitment conditions, including timing.

2003.03B Construction and Feasibility Review

➡️ Guidance

You should:

- Assess the:
  - construction lender’s capacity to fund and monitor the construction loan; and
  - ability of the development team and general contractor to
    - complete the project, and
    - post an acceptable bond or letter of credit for the construction lender.

- Review and approve the:
  - project budget, including construction contingencies, and align any deferred development fee to market rates;
  - LIHTC equity funding schedule;
  - pro forma underwriting;
  - feasibility of repaying the construction loan at conversion, including:
    - evaluating several stress-test scenarios such as a decline in rents, an increase in operating expenses, or other circumstances;
    - having the LIHTC investor or construction lender retain an
appropriate portion of the development fee until specified construction and lease up milestones are met; the sufficiency of the LIHTC investor’s equity funding; and the availability of other capital sources such as grants or subordinate debt;

- absorption schedule, including a capture band analysis of submarket income;
- Borrower organizational documents;
- Affordable Regulatory Agreements; and
- Subordinate Loan documents.

Ensure the Forward Commitment term is sufficient to allow for:

- the Property to be completed and leased;
- you to submit the conversion package;
- Fannie Mae to approve the conversion; and
- you to Deliver the permanent Mortgage Loan.

### 2003.03C Third-Party Reports

#### Requirements

If you and the construction lender use a single set of third-party reports for underwriting, the reports

- must be addressed to both lenders, but
- can be contracted and paid for by either lender.

#### Operating Procedures

You must obtain the following reports.

<table>
<thead>
<tr>
<th>Report</th>
<th>Timing</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Condition Assessment</td>
<td>Before Forward Commitment</td>
<td>Complete a PCA for all substantial rehabilitation properties.</td>
</tr>
<tr>
<td></td>
<td>Before conversion</td>
<td>Obtain a PCA and complete the Replacement Reserve Schedule per Part II, Chapter 4: Inspections and Reserves.</td>
</tr>
<tr>
<td>Report</td>
<td>Timing</td>
<td>You must...</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>-----------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Environmental Site Assessment</td>
<td>Before construction</td>
<td>Obtain a Phase I ESA.</td>
</tr>
<tr>
<td></td>
<td>Before conversion</td>
<td>• Obtain a new Phase I ESA.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Obtain a Phase II ESA if recommended by the new Phase I ESA.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ensure any required remediation is complete before you Deliver the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>permanent Mortgage Loan.</td>
</tr>
<tr>
<td>Architectural Review</td>
<td>Before Forward Commitment</td>
<td>From an independent consulting architect, obtain an architectural review</td>
</tr>
<tr>
<td></td>
<td></td>
<td>assessing the Property's</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• preliminary plans and specifications,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• compliance with local building codes,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• site characteristics,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• choice of building materials and finishes,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• asset quality,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• marketability,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• overall design appropriateness for the intended use.</td>
</tr>
<tr>
<td></td>
<td>During construction</td>
<td>Use a consulting architect for in-field inspections.</td>
</tr>
<tr>
<td></td>
<td>Final inspection</td>
<td>Require the consulting architect to conduct a final inspection confirming</td>
</tr>
<tr>
<td></td>
<td></td>
<td>the Property:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• was built according to the approved plans and specifications; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• meets all applicable building codes and zoning requirements.</td>
</tr>
<tr>
<td>Report</td>
<td>Timing</td>
<td>You must...</td>
</tr>
<tr>
<td>------------</td>
<td>---------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Appraisal</td>
<td>Before Commitment</td>
<td>Obtain an Appraisal per Part II, Chapter 2: Valuation and Income.</td>
</tr>
<tr>
<td></td>
<td>Before conversion</td>
<td>Obtain a new or updated Appraisal if</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• you request an increase in the permanent Mortgage Loan amount above the Forward Commitment terms, or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Fannie Mae requires it.</td>
</tr>
</tbody>
</table>

**Guidance**

You may use the same consulting architect as the construction lender if the consulting architect:

- is independent and not an employee of the construction lender;
- is retained directly by you and engaged separately by the construction lender; and
- acknowledges they may be required to make recommendations that do not align with those of the construction lender.

### 2003.04 Commitment

**Requirements**

All:

- Forward Commitments must comply with Part IV, Chapter 2: Rate Lock and Committing.
- Borrower Commitments must comply with Part IV, Chapter 2: Rate Lock and Committing, Section 201.01: Borrower Commitment.

**Operating Procedures**

You must

- complete the steps in the following table, and
- submit the Forward Commitment in C&D per the Committing & Delivery of Unfunded Forwards Job Aid.
<table>
<thead>
<tr>
<th>Step</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>For All Mortgage Loans</strong></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Obtain an executed Borrower Commitment including:</td>
</tr>
<tr>
<td></td>
<td>• Borrower covenants to</td>
</tr>
<tr>
<td></td>
<td>- close the permanent Mortgage Loan per the Forward Commitment terms, and</td>
</tr>
<tr>
<td></td>
<td>- pay all required fees and deposits; and</td>
</tr>
<tr>
<td></td>
<td>• all required Loan Documents and third-party documents in final form, including</td>
</tr>
<tr>
<td></td>
<td>- Affordable Regulatory Agreements (or other affordable housing restrictions), and</td>
</tr>
<tr>
<td></td>
<td>- Subordinate Loan documents and subordination agreements.</td>
</tr>
<tr>
<td>2</td>
<td>Pay all fees or submit acceptable collateral to Fannie Mae.</td>
</tr>
<tr>
<td>3</td>
<td>Ensure the Borrower</td>
</tr>
<tr>
<td></td>
<td>• accepted the construction loan commitment, and</td>
</tr>
<tr>
<td></td>
<td>• complied with its conditions.</td>
</tr>
<tr>
<td>4</td>
<td>Obtain evidence that state and local authorities issued the Borrower all</td>
</tr>
<tr>
<td></td>
<td>• land disturbance,</td>
</tr>
<tr>
<td></td>
<td>• site,</td>
</tr>
<tr>
<td></td>
<td>• grading,</td>
</tr>
<tr>
<td></td>
<td>• foundation, and</td>
</tr>
<tr>
<td></td>
<td>• building permits, or their equivalents.</td>
</tr>
<tr>
<td><strong>Additionally, for all non-Credit Enhancement Mortgage Loans</strong></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Obtain a Rate Lock.</td>
</tr>
<tr>
<td>6</td>
<td>Obtain the signed Delivery Assurance Agreement (Unfunded Forwards) (Form 6488).</td>
</tr>
<tr>
<td>7</td>
<td>Ensure any Delivery Assurance Security Instrument covers any permitted Borrower Commitment extension terms.</td>
</tr>
<tr>
<td>8</td>
<td>Record any Delivery Assurance Security Instrument on the Property before the construction loan closing.</td>
</tr>
</tbody>
</table>

**Additionally, for all Credit Enhancement Mortgage Loans**
Step | You must...
--- | ---
9 | Ensure Bond pricing complies with Part IV, Chapter 8: Bond Transactions and Credit Enhancement Mortgage Loans, Section 801.04: Rate Lock.
10 | Obtain the Credit Enhancement Commitment Letter.

After you complete these steps, Fannie Mae will confirm the Forward Commitment in C&D.

Within 30 days after the Forward Commitment is confirmed, you must Deliver the documents listed in:

- steps 4, 6, 8, and 10; and
- the Pre-Construction Monitoring Package (Form 4543).

### 2003.05 Construction Period

#### 2003.05A Monitoring

- **Requirements**

  You must monitor the construction process to ensure that when the permanent Mortgage Loan is converted it will comply with the

  - Forward Commitment, and
  - permanent Mortgage Loan Commitment.

- **Guidance**

  During the construction or substantial rehabilitation period:
### Responsible Party

<table>
<thead>
<tr>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>You</strong></td>
</tr>
</tbody>
</table>
| • Evaluate inspections and change orders.  
  • Reject any change orders that would:  
    - change the Property's main design or asset quality features;  
    - make material changes; or  
    - result in combined hard and contingency costs greater than the construction loan budget (i.e., the construction loan must remain in balance).  
  • Review the consulting architects progress reports and provide them to Fannie Mae upon request.  
  • Monitor the construction loan and lease-up status. |
| **Consulting Architect** |
| • Regularly perform on-site construction progress inspections.  
  • Ensure the time between inspections is not more than 2 months.  
  • Issue a progress report after each - inspection, and  
    - whenever the construction lender approves a disbursement. |

You and the construction lender may both use the same consulting architect for the
- preliminary and final plans,  
- specification reviews, and  
- construction period inspections.

---

**2003.05B Reporting**

- **Requirements**

You must provide quarterly reports to Fannie Mae via DUS Gateway using Construction Period Monitoring (Form 4211).

**2003.05C Forward Commitment Extensions**

- **Requirements**

You must inform the Fannie Mae Deal Team and the Forwards Team if conversion may be delayed.
Guidance

If the Forward Commitment permits, you may approve a maximum delegated Forward Commitment extension up to:

- for MBS for Bonds, two 6-month periods; or
- for any other Mortgage Loan, one 6-month period.

Operating Procedures

The delegated Forward Commitment extension will become effective when all of the following occur:

- you submit the following extension documentation to Fannie Mae at least 30 days before the Forward Commitment expiration:
  - the Borrower’s extension request;
  - a project status report, including reasons for the delay;
  - verification the Forward Commitment is likely to convert to a permanent Mortgage Loan within the extension period;
  - anticipated shortfall analysis of the Mortgage Loan amount at conversion and the source of funds for filling the shortfall;
  - confirmation there has been no material adverse change in the Borrower or Property; and
  - confirmation the Borrower’s construction loan will be extended by the same extension period as the Forward Commitment term.

- Fannie Mae processes the extension request; and

- at least 1 business day before the Forward Commitment expiration:
  - you enter all fees into C&D;
  - Fannie Mae receives the fees;
  - you submit a C&D request to adjust the Forward Commitment expiration date; and
  - you are notified the adjustment has been completed.

Requirements

Fannie Mae must approve all Forward Commitment extensions beyond the maximum delegated term. To request Fannie Mae approval:

- you must submit
  - all extension documentation required for a delegated extension, and
any requested revised stabilization analysis; and

- the Borrower must pay any required fees.

### 2003.06 Construction Completion

#### Requirements

You must ensure that all Improvements on the Property are completed, including

- amenities,
- landscaping,
- signage,
- parking, etc.

If sufficient funds will be reserved in a Completion/Repair Escrow, minor punch list and weather-sensitive items may be incomplete.

#### Guidance

Use the following table for confirming construction completion and occupancy.

<table>
<thead>
<tr>
<th>Responsible Party</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consulting Architect</td>
<td>• Conduct a final Property inspection.</td>
</tr>
<tr>
<td></td>
<td>• Certify the Property was completed per this Section.</td>
</tr>
</tbody>
</table>
### Responsible Party | Activities
--- | ---
You | Ensure all Improvements:
  - were completed in a good and workmanlike manner per the approved plans and specifications;
  - are Lien-free; and
  - for all governmental authorities with jurisdiction over the Property, comply with all
    - applicable laws,
    - building codes,
    - zoning requirements,
    - subdivision requirements,
    - fire and safety laws,
    - ADA requirements, and
    - design and construction requirements per the Fair Housing Act.

  Obtain:
  - certificates and reports showing the Borrower completed all Improvements per the Guide from the
    - architect,
    - consulting architect, and
    - other project consultants;
  - evidence of all public utilities for the Property;
  - copies of:
    - all Property operating permits and licenses; and
    - either:
      - each unconditional certificate of occupancy (or the local equivalent) for all required portions of the Property;
      - evidence the Property passed all inspections and received all approvals before occupancy, if local law does not require certificates of occupancy; and
  - a Certification of Substantial Completion (AIA Document G704) stating the Improvements were completed per the final plans and specifications, and executed by the appropriate parties, including the
    - architect,
    - general contractor, and
    - Borrower.
### Generally

#### Requirements

Before converting, you must complete the permanent Mortgage Loan final underwriting.

<table>
<thead>
<tr>
<th>Topic</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSCR and LTV</td>
<td>Ensure the Property complies with the committed DSCR and LTV.</td>
</tr>
<tr>
<td>Eligibility</td>
<td>Ensure:</td>
</tr>
<tr>
<td></td>
<td>• The Borrower:</td>
</tr>
<tr>
<td></td>
<td>- does not change;</td>
</tr>
<tr>
<td></td>
<td>- remains eligible; and</td>
</tr>
<tr>
<td></td>
<td>- still owns the Property.</td>
</tr>
<tr>
<td></td>
<td>• The Key Principals:</td>
</tr>
<tr>
<td></td>
<td>- do not change; and</td>
</tr>
<tr>
<td></td>
<td>- have not reduced their direct or indirect ownership interest and control over the Borrower or the Property.</td>
</tr>
<tr>
<td></td>
<td>• There is no material adverse change in the condition, financial or otherwise, of</td>
</tr>
<tr>
<td></td>
<td>- the Borrower,</td>
</tr>
<tr>
<td></td>
<td>- any Guarantor,</td>
</tr>
<tr>
<td></td>
<td>- any Key Principal, or</td>
</tr>
<tr>
<td></td>
<td>- the Property.</td>
</tr>
<tr>
<td>Construction Loan Status</td>
<td>Ensure the Borrower</td>
</tr>
<tr>
<td></td>
<td>• is current on the construction loan payments and not in default, and</td>
</tr>
<tr>
<td></td>
<td>• has not been delinquent during the previous 12 months.</td>
</tr>
<tr>
<td>Certification of Rent Roll</td>
<td>On the permanent Mortgage Loan Origination Date, certify with the Borrower there has been no material adverse change in the Certification of Project Rent Roll.</td>
</tr>
</tbody>
</table>
### Equity Contributions

As of the permanent Mortgage Loan Delivery, obtain a Borrower certificate, or other Fannie Mae-accepted evidence, that all funds reflected on the Borrower's sources and uses of funds statement were:

- received, including all equity contributions; and
- properly invested in the Property.

### LIHTC Reservation or Allocation

If the Property is eligible for LIHTCs, verify the Borrower's IRS Form 8609 issued by the state housing finance agency reflects the required LIHTC amount.

#### Guidance

Fannie Mae may defer the requirement to obtain IRS Form 8609 before conversion based on factors such as whether:

- the Property's financials exceed the pro-forma underwriting per the Forward Commitment;
- all other conversion criteria were met;
- the Borrower certified the Property complies with the LIHTC requirements;
- you and the tax accountant approved the cost certification;
- the Borrower submitted the cost certification to the state, with no anticipated significant adjustments;
- the LIHTC investor contributed at least 90% of their equity, with the remaining 10% withheld for any minor adjustments to the
  - Property tax depreciable basis,
  - adjusters, or
  - developer fee;
- the sources and uses of funds are in balance, and all required funds were received to complete and lease-up the Property;
- you have documentation confirming the IRS Form 8609 application and the state's acknowledgement of receipt;
- you expect to receive the IRS Form 8609 timely post-conversion;
- you will monitor receipt of IRS Form 8609 as a post-closing matter and deliver a copy to Fannie Mae; and
- the Borrower has experience complying with IRS Form 8609 in the
You must:

- Confirm the Property will qualify for the full Commitment by
  - evaluating its performance, and
  - assessing whether it meets the projected
    - income,
    - expenses, and
    - NCF.

- Use the Forward Loan Conversion Analysis (Form 4212) to
  - annualize the certified project rent rolls,
  - compare pro forma and actual operating expenses, and
  - calculate the Property's stabilized NCF per
    - this Chapter, and
    - Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis or the applicable Part III chapter based on the specific product.

- Submit the Forward Conversion Analysis Summary (Form 4618) that verifies your Chief Underwriter's involvement and agreement with the analysis.

The permanent Mortgage Loan Delivery Package documentation must include:

- the percentage of the Property's occupied units categorized by
  - bedroom configuration,
  - square footage, and
  - rent type (low income or market rate) delineating any Section 8 or other subsidized rental program tenants;

- the Property's actual Effective Gross Income for each of the previous 3 months, including only rental income and permitted other income from the units less any specific state.
- rent concessions,
- reductions,
- inducements, or
- forbearance; and

- rental income by rent type (low income or market rate).

You must use the following table to calculate stabilized NCF.

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
</table>
| 1    |          | For each of the most recent trailing 3 months before conversion:  
|      |          | • determine the Gross Potential Rent from an executed Certification of Project Rent Roll; and  
|      |          | • confirm that at least 90% of the units were physically occupied by a Qualified Tenant with an acceptable Lease. |
|      |          | **EQUALS** **GROSS POTENTIAL RENT** |
| 2    | MINUS    | • Economic vacancy using the higher of  
|      |          | - original Forward Commitment underwriting, or  
|      |          | - actual annualized trailing 3-month operating statements.¹  
|      |          | • Include:  
|      |          | - concessions if they  
|      |          |   • are prevalent in the market, or  
|      |          |   • were used to achieve initial stabilization and will remain; and  
|      |          | - a re-leasing cost allowance if the Property has short term leases. |
| 3    | PLUS     | For an MAH Property, include annualized other income per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703.01: Underwritten NCF. |
### STABILIZED NCF

<table>
<thead>
<tr>
<th></th>
<th>PLUS</th>
<th>Commercial income per Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF).</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th></th>
<th>EQUALS</th>
<th>EFFECTIVE GROSS INCOME</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th></th>
<th>MINUS</th>
<th>Line-by-line operating expenses using the higher of:</th>
</tr>
</thead>
</table>

- actual annualized trailing 3-month operating statements; or
- original Forward Commitment underwriting, adjusted by substituting the following actual expenses, if known:
  - real estate taxes;
  - property liability and other insurance;
  - management fees.

<table>
<thead>
<tr>
<th></th>
<th>MINUS</th>
<th>Replacement Reserve expense per Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF).</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th></th>
<th>EQUALS</th>
<th>STABILIZED NCF</th>
</tr>
</thead>
</table>

1. Assess if there was any decline in NRI per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.

---

**2003.07C**  
Final Permanent Mortgage Loan Amount

#### Requirements

You must ensure the permanent Mortgage Loan amount is less than or equal to the Forward Commitment.

#### Operating Procedures

<table>
<thead>
<tr>
<th>Steps</th>
<th>Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>You must determine the permanent Mortgage Loan amount using the Forward Loan Conversion Analysis (Form 4212).</td>
</tr>
<tr>
<td>Steps</td>
<td>Actions</td>
</tr>
<tr>
<td>-------</td>
<td>---------</td>
</tr>
<tr>
<td>2</td>
<td>If the Property’s actual stabilized NCF before permanent Mortgage Loan Delivery is less than the original Forward Commitment underwriting, reduce the permanent Mortgage Loan amount to comply with the Forward Commitment DSCR and LTV.</td>
</tr>
<tr>
<td>3</td>
<td>If the permanent Mortgage Loan amount in Step 2 is less than the Forward Commitment Confirmation Mortgage Loan amount, verify the Borrower has secured a source of funds, whether debt or equity, to cover the difference.</td>
</tr>
</tbody>
</table>
| 4     | Ensure any additional debt the Borrower incurs to cover the difference in Step 3, is only secured by a Lien on the Property if  
  • it is an MAH Property, and  
  • the subordinate debt complies with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704: Subordinate Financing. |
| 5     | If the permanent Mortgage Loan amount in Step 2 results in a loan curtailment,  
  • the Borrower must close the permanent Mortgage Loan at the reduced amount, and  
  • you must Deliver the permanent Mortgage Loan at the reduced amount. |
| 6     | If the Property qualifies for additional financing beyond the Forward Commitment Confirmation Mortgage Loan amount, submit via DUS Gateway:  
  • a request for additional financing;  
  • your conversion documentation; and  
  • a comparative analysis showing the stabilized NCF is greater than the original Forward Commitment underwriting.  
  A new pre-conversion Appraisal is not required if the pre-construction Appraised Value and permanent Mortgage Loan amount comply with the Forward Commitment maximum LTV. |
### 2003.07D Third-Party Reports

**Requirements**

You must obtain third-party reports per Part III, Chapter 20: Forward Commitments, Section 2003.03C: Third-Party Reports.

### 2003.08 Conversion

#### 2003.08A Eligibility

**Requirements**

To convert to the permanent Mortgage Loan, you must confirm:

- construction is complete;
- the Property achieved the
  - minimum occupancy,
  - income, and
  - debt service coverage;
- the eligibility criteria in Part III, Chapter 20: Forward Commitments, Section 2003.07A: Generally have been met; and
- the permanent Mortgage Loan is Delivered on Fannie Mae Loan Documents.

#### 2003.08B Timeline

**Operating Procedures**
<table>
<thead>
<tr>
<th>Timing</th>
<th>You must...</th>
</tr>
</thead>
</table>
| 30 days before the Borrower's closing | • Contact the Fannie Mae Deal Team and Forwards Team, to provide the  
- project development status, and  
- anticipated conversion and Delivery date.  
• Submit via DUS Gateway:  
  - Preliminary Notice of Conversion:  
    • for Credit Enhancement Mortgage Loans, using the form attached in the Credit Enhancement Commitment Letter; and  
    • for all other Mortgage Loans, using Form 4616;  
  - Forward Loan Conversion Analysis (Form 4212);  
  - Forward Conversion Analysis Summary (Form 4618); and  
  - compliance evidence required by Fannie Mae conditions.  
• Receive a conversion approval letter from the Forwards Team after all Fannie Mae imposed conditions are met. |
| At Conversion                  | • Submit the permanent Mortgage Loan Commitment in C&D per the Committing & Delivery of Unfunded Forwards Job Aid.  
• Document the permanent Mortgage Loan using Fannie Mae Loan Documents attached to the Borrower Commitment.  
• For Credit Enhancement Mortgage Loans, submit via DUS Gateway the final conversion notice using the form attached in the Credit Enhancement Commitment Letter. |
### Timing

<table>
<thead>
<tr>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>By the Delivery Deadline</td>
</tr>
<tr>
<td>• Deliver the permanent Mortgage Loan Delivery Package and submit the permanent Mortgage Loan data per</td>
</tr>
<tr>
<td>- Part IV, Chapter 4: Delivery, Section 401: Delivery Deadline, and</td>
</tr>
<tr>
<td>- Part IV, Chapter 4: Delivery, Section 402: Submission.</td>
</tr>
<tr>
<td>• For a Credit Enhancement Instrument, also submit applicable data on the Bond, Loan, Borrower, and Property pages in C&amp;D within 3 Business Days after the Mortgage Loan closing.</td>
</tr>
</tbody>
</table>

### 2003.09 MBS Issuance

#### Operating Procedures

The MBS will be issued per your delivery instructions after you Deliver the permanent Mortgage Loan.

### 2003.10 Forward Commitment Termination

#### Guidance

Fannie Mae may terminate the Forward Commitment if:

- You fail to Deliver a permanent Mortgage Loan per the Forward Commitment Confirmation terms and conditions.
- The Borrower does not begin Property construction or substantial rehabilitation within 180 days after you accept the Forward Commitment.
- A construction loan default occurs and is not cured within 90 days.
- A substantial construction defect occurs that may threaten tenant life and safety unless:
  - the Borrower repairs the defect within 90 days;
  - the repairs satisfy both you and your consulting architect; and
  - after paying all repair costs, the available remaining funds are sufficient to pay for all
    - work performed,
    - materials used or ordered, and
    - other required unpaid project costs per the contract.
Requirements

If Fannie Mae terminates the Forward Commitment, all applicable fees must be paid per the Forward Commitment terms.

If the Borrower terminates the Forward Commitment, you must:

- submit a request to collapse the transaction to the Fannie Mae Deal Team and the Forwards Team at least 30 days before the Forward Commitment expiration;
- for Bond transactions, coordinate with Fannie Mae’s counsel; and
- contact Multifamily Acquisitions to withdraw the transaction in C&D.
Glossary

30-Day Average SOFR  Compounded average of SOFR over a specified interest period of 30 days.

A

ACheck  Lender due diligence performed for the Borrower, Key Principal, and Principal using the ACheck application.

**Synonyms**
- Applicant Experience Check

Actual Cooperative Property Basis  Financial analysis or valuation of a Cooperative Property conducted based on its actual operating performance.

Additional Disclosure  Information you provide that is published as an addendum to the disclosure documents when an MBS is issued and describes special Security, Mortgage Loan, or Property characteristics or terms that differ from those described in the standard Multifamily MBS Prospectus.

**Synonyms**
- Additional Disclosures
- Special Disclosure

Administering Agent  Third-party compliance monitoring company.
**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-Owned Manufactured Home**

Manufactured Home or park model home located on an MH Site that is owned by an Affiliate of the Borrower.

**Synonyms**

- Affiliate-Owned Manufactured Homes
- Affiliate-Owned Home
- Affiliate-Owned Homes

---

**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)).
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age-Restricted MH Community</td>
<td>MH Community that limits residents to those who are over a particular age (e.g., persons who are age 62 or older, or at least 80% of the Manufactured Homes occupied by at least 1 person who is age 55 or older).</td>
</tr>
<tr>
<td>All-Age MH Community</td>
<td>MH Community that accepts residents of any age.</td>
</tr>
<tr>
<td>Alzheimer’s/Dementia Care</td>
<td>Seniors Housing Property with units and beds for residents with significant cognitive impairment resulting from Alzheimer’s disease or other dementia, which are typically licensed and regulated by a state or local government authority.</td>
</tr>
</tbody>
</table>

**Synonyms**
- ALZ

**Appraisal**
Written statement independently and impartially prepared by a qualified appraiser stating an opinion of the market value of the Property as of a specific date, supported by the presentation and analysis of relevant market information.

**Synonyms**
- Appraisals

**Appraised Value**
Appraiser’s opinion of the market value of the Property documented in the Appraisal, on an “as is” basis, unless use of an “as completed” basis is specifically permitted by the Guide.

**Synonyms**
- Appraised Values
<table>
<thead>
<tr>
<th>Assisted Living</th>
<th>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.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Synonyms</td>
<td>• AL</td>
</tr>
<tr>
<td>ASTM</td>
<td>American Society for Testing Materials</td>
</tr>
<tr>
<td>B</td>
<td></td>
</tr>
<tr>
<td>Bifurcated Mortgage Loan</td>
<td>Single Senior Mortgage Loan that is evidenced by 2 Notes with the same payment and collateral priority.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Bifurcated Mortgage Loans</td>
</tr>
<tr>
<td>Bond Liquidity Fee Rate</td>
<td>Fee charged by the provider of a letter of credit, standby bond purchase agreement, or other arrangement providing liquidity to purchase securities (typically variable rate demand obligations), that were tendered to the Issuer but cannot be immediately remarketed to new investors, expressed as an annualized percentage.</td>
</tr>
<tr>
<td>Bond Trustee</td>
<td>Trustee for a Credit Enhancement Instrument.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Bond Trustee's</td>
</tr>
<tr>
<td>Bonds</td>
<td>Tax-exempt or taxable multifamily revenue bonds, or other tax-exempt or taxable bonds, issued to finance 1 or more Credit Enhancement Mortgage Loan Properties.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Bond</td>
</tr>
</tbody>
</table>
Borrower: Person who is the obligor per the Note.

Synonyms:
• Borrowers
• Borrower's

Borrower Commitment: Your written commitment with the Borrower to originate a Mortgage Loan, and any separate written or oral rate lock agreements between you and the Borrower to rate lock the Mortgage Loan.

Synonyms:
• Borrower Commitments

Bulk Delivery: Structured Transaction that:
• is governed by a Bulk Delivery Agreement; and
• includes the ability to
  - add Mortgage Loans in the future, or
  - substitute a new Property for an existing Property as collateral.

Synonyms:
• Bulk Deliveries

Bulk Delivery Agreement: Agreement evidencing the terms and conditions of a Bulk Delivery.

Business Day: Any day other than a
• Saturday,
• Sunday,
• day when Fannie Mae is closed,
• day when the Federal Reserve Bank of New York is closed, or
• for any MBS and required remittance withdrawal, a day when the Federal Reserve Bank is closed in the district where any of the MBS funds are held.

Synonyms:
• Business Days
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cap Strike Rate</td>
<td>Maximum specified Index interest rate that will trigger a payment obligation by the Interest Rate Cap provider.</td>
</tr>
<tr>
<td>Cash Mortgage Loan</td>
<td>Mortgage Loan purchased by Fannie Mae in exchange for cash.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Cash Mortgage Loans</td>
</tr>
<tr>
<td>Choice Refinance Loan</td>
<td>Mortgage Loan refinancing a Portfolio Mortgage Loan using streamlined underwriting per Part III, Chapter 18: Choice Refinance Loans.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Choice Refinance Loans</td>
</tr>
<tr>
<td>Closed Indenture</td>
<td>Indenture for a Bond transaction where all of the Bond proceeds finance only the Property securing the Mortgage Loan.</td>
</tr>
<tr>
<td>Co-Tenant Borrower</td>
<td>Borrower consisting of tenants-in-common that own the Property in equal or unequal shares.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Co-Tenant Borrowers</td>
</tr>
<tr>
<td>Collateral</td>
<td>Property, Personal Property, or other property securing a Mortgage Loan.</td>
</tr>
</tbody>
</table>
Commitment

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

Synonyms
• Committed
• Commitments

Commitment Date

Date a Commitment is confirmed by Fannie Mae per Part IV, Chapter 2: Rate Lock and Committing, Section 204: Commitments.

Completion/Repair Agreement

The 4000 series Completion/Repair Security Agreement (Form 4505), or other agreement approved by Fannie Mae, that evidences the:
• Borrower’s agreement to perform Completion/Repairs and other identified capital improvements;
• terms for funding the repairs, maintenance, or capital items; and
• disbursement of Completion/Repair Escrow funds.

Synonyms
• Completion/Repair Agreements

Completion/Repair Escrow

Custodial Account established by the Lender and initially funded by an escrow deposit from the Borrower on the Mortgage Loan Origination Date to complete Completion/Repairs or other capital improvements at the Property.

Completion/Repairs

Immediate Repairs identified by the Property Condition Assessment and required by the Lender to be included in the Completion/Repair Agreement (or a Certificate of Borrower, if applicable).

Synonyms
• Completion/Repair
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control</td>
<td>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).</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Controlling • Controlled • Controls</td>
</tr>
<tr>
<td>Controlling Interest</td>
<td>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.</td>
</tr>
<tr>
<td>Cooperative Gross Sellout Value</td>
<td>Value based upon the sum of the gross sales prices of all units (subject to discounts on rent restricted units) plus the aggregate UPB of all existing Mortgage Loans (prior to any proposed refinancing) secured by a Lien on the Cooperative Property.</td>
</tr>
<tr>
<td>Cooperative Maintenance Fee</td>
<td>Periodic fee assessed each shareholder or owner of a Cooperative Organization to fund costs and expenses associated with ongoing operations of the Cooperative Property.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Cooperative Maintenance Fees</td>
</tr>
<tr>
<td>Cooperative Maintenance Fee Accounts Receivable</td>
<td>Cooperative Maintenance Fees due the Cooperative Organization that are more than 30 days past due.</td>
</tr>
<tr>
<td>Cooperative Market Rental Basis</td>
<td>Financial analysis or valuation of a Cooperative Property conducted as if it were operated as a conventional multifamily property subject to applicable rental restrictions.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Cooperative Operating Reserve</td>
<td>Liquid funds, including loan proceeds, controlled by the Cooperative Organization to cover operating and capital expenses, and comprised of unrestricted cash, less the sum of accounts payable.</td>
</tr>
<tr>
<td>Cooperative Organization</td>
<td>Corporation or legal entity where each shareholder or equity owner is granted the right to occupy a unit in a multifamily residential property under a proprietary lease or occupancy agreement.</td>
</tr>
<tr>
<td>Cooperative Property Sponsor</td>
<td>Person who invested in, converted, or is converting a residential rental apartment building to a Cooperative Property and continues to own unsold shares in the Cooperative Organization.</td>
</tr>
<tr>
<td>Credit Enhancement Fee</td>
<td>Fee due to Fannie Mae for a Credit Enhancement Instrument.</td>
</tr>
<tr>
<td>Credit Enhancement Instrument</td>
<td>Agreement between Fannie Mae and a Bond Trustee where Fannie Mae provides credit enhancement of a Credit Enhancement Mortgage Loan, Bonds issued to finance a Credit Enhancement Mortgage Loan, or an Interest Rate Hedge Agreement; and if applicable, a Bond liquidity facility.</td>
</tr>
<tr>
<td><strong>Credit Enhancement Mortgage Loan</strong></td>
<td>Mortgage Loan financed by a Bond issuance where Fannie Mae provides credit enhancement by • a Credit Enhancement Instrument, or • an MBS for Bonds.</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Credit Enhancement Mortgage Loans</td>
</tr>
<tr>
<td><strong>Credit Facility</strong></td>
<td>Structured Transaction that • is governed by a Master Credit Facility Agreement, and • includes cross-collateralized and cross-defaulted Mortgage Loans and Properties.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Credit Facilities</td>
</tr>
<tr>
<td><strong>D</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Decontrol Event</strong></td>
<td>For Properties located in New York City, an event that causes a property or unit to be removed from rent control but subject to rent-stabilization pursuant to New York City rent stabilization laws.</td>
</tr>
<tr>
<td><strong>Dedicated Student Housing Property</strong></td>
<td>Multifamily rental Property in which 80% or more of the units are leased to undergraduate or graduate students.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Dedicated Student Housing</td>
</tr>
<tr>
<td><strong>Delivery</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Deliver • Delivered • Deliveries</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Delivery Assurance Security Instrument</td>
<td>The applicable Security Instrument (Form 6025 series), as modified by the Modifications to Security Instrument (Unfunded Forwards) (Form 6321).</td>
</tr>
<tr>
<td>Direct Pay</td>
<td>Credit enhancement under which Fannie Mae makes principal and interest payments directly to the Bond Trustee (for payment to bondholders) regardless of whether the Borrower has reimbursed Fannie Mae for such payments.</td>
</tr>
<tr>
<td>Dual Commitment Option</td>
<td>For a Streamlined Rate Lock Mortgage Loan trade with the Multifamily Trading Desk, your ability to increase the Mortgage Loan Rate Lock amount.</td>
</tr>
<tr>
<td>DUS</td>
<td>Delegated Underwriting and Servicing</td>
</tr>
<tr>
<td>DUS Gateway</td>
<td>Multifamily pre-acquisition system including deal registration, Pre-Review and/or waiver tracking, decision records, or any successor systems.</td>
</tr>
<tr>
<td>DUS Lender</td>
<td>Lender approved to Deliver loans under the Delegated Underwriting and Servicing program.</td>
</tr>
</tbody>
</table>

**Synonyms**
- DL

**Effective Gross Income**

On an annual basis or any specified period, the total of Net Rental Income plus other income per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products and features in Part III.

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

**Synonyms**
- Efficiency Measure

Environmental Site Assessment  Report (either a Phase I ESA or a Phase II ESA) identifying whether a Property is subject to Recognized Environmental Conditions or Business Environmental Risks.

**Synonyms**
- ESA

ERS  Enhanced Resident Services

**F**

Fannie Mae Deal Team  Team responsible for reviewing Pre-Review Mortgage Loans, waivers, etc.

**Synonyms**
- Deal Team

FHA  Federal Housing Administration

FHA Risk Sharing  MAH Mortgage Loan with mortgage insurance from FHA.
Foreclosure Event

Any of the following:
- Foreclosure under the Security Instrument;
- any other exercise by the Lender of rights and remedies (whether under the Security Instrument or under applicable law, including Insolvency Laws) as holder of the Mortgage Loan and/or the Security Instrument, as a result of which the Lender (or its designee or nominee) or a third-party purchaser becomes owner of the Property;
- delivery by the Borrower to the Lender (or its designee or nominee) of a deed or other conveyance of the Borrower’s interest in the Property in lieu of any of the foregoing; or
- in Louisiana, any dation en paiement.

Foreign Person

Person who is not:
- a United States citizen;
- a legal permanent resident; or
- an entity organized and existing under the laws of the United States of America, or its states or territories.

Form 4660

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

Synonyms
- Multifamily Underwriting Standards

Forward Commitment

Commitment to purchase a permanent Mortgage Loan for a to-be constructed or rehabilitated Property.

Synonyms
- Forward Commitment's
- Forward Commitments

Forwards Team

Team that can be contacted at
mf_forwards_team@fanniemae.com.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good Faith Deposit</td>
<td>Amount you collect from the Borrower when originating a Mortgage Loan per Part IV, Chapter 2: Rate Lock and Committing, Section 203: Good Faith Deposits.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Good Faith Deposits</td>
</tr>
<tr>
<td>Green Building Certification</td>
<td>Designation awarded by a third-party organization that is recognized by Fannie Mae and listed in the Green Building Certifications (Form 4250) for multifamily properties constructed or maintained to meet specified energy and water efficiency standards or other sustainability criteria.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Green Building Certifications</td>
</tr>
<tr>
<td>Green Mortgage Loan</td>
<td>Mortgage Loan secured by a Property that incorporates features expected to have a positive environmental outcome including, but not limited to, reducing energy and water consumption at a Property, generating energy, or meeting criteria set by a third-party green building certification organization.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Green Mortgage Loans</td>
</tr>
<tr>
<td>Green Rewards Mortgage Loan</td>
<td>Mortgage Loan secured by a Property where the Borrower agrees to undertake 1 or more Energy- and Water-Efficiency Measures that comply with Part III, Chapter 4: Green Mortgage Loans, Section 403: Green Rewards Mortgage Loans.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Green Rewards Mortgage Loans</td>
</tr>
<tr>
<td></td>
<td>• Green Rewards</td>
</tr>
<tr>
<td>Gross Note Rate</td>
<td>Interest rate stated in the Loan Documents.</td>
</tr>
</tbody>
</table>
Gross Potential Rent  On an annual basis or any specified period, the total actual and potential rent for a Property (per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products and features in Part III).

**Synonyms**
- GPR

Ground Lease  Contract for the rental of land, usually on a long term basis.

Guarantor  Key Principal or other Person executing a Payment Guaranty, Non-Recourse Guaranty, or any other guaranty related to the Mortgage Loan.

**Synonyms**
- Guarantors

Guaranty  Payment Guaranty, Non-Recourse Guaranty, or other guaranty by a Guarantor for the Mortgage Loan.

Guaranty Fee  Fee retained by Fannie Mae for credit enhancing a Mortgage Loan or assuming credit risk on a Mortgage Loan, and which may be expressed as a percentage.

**Synonyms**
- Guaranty Fees

Guide  Multifamily Selling and Servicing Guide that:
- controls all Lender and Servicer requirements unless a Lender Contract specifies otherwise; and
- includes any exhibits, appendices, or other referenced forms, as updated, amended, restated, modified, or supplemented.

**Synonyms**
- DUS Guide
### H

**HAP**  
HUD project-based Section 8 rental subsidy in the form of a Housing Assistance Payment contract.

*Synonyms*  
- Housing Assistance Payment

**HPB**  
High Performance Building

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

**HUD Use Agreement**  
Contract between HUD and the Borrower identifying Property use restrictions and default remedies for HUD programs such as Housing Assistance Payments and Rental Assistance Demonstration.

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

*Synonyms*  
- Hybrid ARM Loans

### I

**Improvements**  
Buildings, structures, improvements, and alterations, including the multifamily housing dwellings, now constructed or hereafter constructed or placed on the land upon which the Property is located, together with all fixtures (as defined in the Uniform Commercial Code).

**Indenture**  
Bond issuer trust indenture or resolution listing Bond terms.
Independent Living

Seniors Housing providing limited programs of assistance for domestic activities (e.g. meals, housekeeping, activities, transportation, etc.), and typically resembles market rate units.

**Synonyms**

- IL

Index

Basis for determining the Gross Note Rate of an ARM Loan, including any required alternative index that may be determined necessary by Fannie Mae because the Index is no longer widely accepted or has been replaced as the index for similar financial instruments.

Interest Rate Cap

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

**Synonyms**

- Interest Rate Caps
- Interest Rate Hedge
- Interest Rate Hedges
- Interest Rate Swap

Interest Rate Cap Agreement

Contract setting forth the terms and conditions of an Interest Rate Cap, Hedge, or Swap.

**Synonyms**

- Interest Rate Hedge Agreement
- Interest Rate Swap Agreement

Investor

MBS Investor for an MBS Mortgage Loan, or Fannie Mae for a Cash Mortgage Loan.

**Synonyms**

- Investors
IRP  Interest Reduction Payment

Synonyms
• Interest Reduction Payment

Issue Date  First day of the month a Security is issued.

Issuer  Entity that:
• issues Bonds for a Credit Enhancement Mortgage Loan;
• packages mortgages for sale as a Security for an MBS; or
• issues a Letter of Credit.

Synonyms
• Issuers

K

Key Principal  Any Person who controls and/or manages the Borrower or the Property, is critical to the successful operation and management of the Borrower and the Property, and who may be required to provide a Guaranty.

Synonyms
• Key Principals

L

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

Synonyms
• Leases
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
<th>Synonyms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lender</td>
<td>Person approved by Fannie Mae to sell or service Mortgage Loans.</td>
<td>Lenders</td>
</tr>
<tr>
<td>Lender Affiliate</td>
<td>Other Person or entity that Controls, is Controlled by, or is under common Control with, the Lender.</td>
<td>Lender's</td>
</tr>
<tr>
<td>Letter of Credit</td>
<td>Letter of Credit approved by Fannie Mae per Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit.</td>
<td>Letters of Credit</td>
</tr>
<tr>
<td>LIHTC Income Averaging</td>
<td>Internal Revenue Code Section 42 election allowing LIHTC property owners to rent units to households earning up to 80% of AMI, provided • a minimum of 40% of the residential units are both rent-restricted and occupied by households with a maximum income up to an average of 60% of AMI, and • the unit's rents are limited to 30% of the qualifying income level. For example, for a 30% AMI unit, the maximum rent that may be charged to a household is 30% of AMI.</td>
<td>LOC</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Limited Equity Cooperative Property</td>
<td>Cooperative Organization that has income, rent, or equity build-up restriction (not including any transfer taxes), which may be dictated by a governmental entity, a third-party capital provider, or its own organizational documents.</td>
<td></td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Limited Equity Cooperative Properties</td>
<td></td>
</tr>
<tr>
<td>Loan Documentation Requirements</td>
<td>Loan Documents listed in Form 6000 applicable to the particular Mortgage Loan execution and/or product and features.</td>
<td></td>
</tr>
<tr>
<td>Loan Documents</td>
<td>All documents evidencing, securing, or guaranteeing the debt obligation executed for a Mortgage Loan and approved by Fannie Mae.</td>
<td></td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Loan Document&lt;br&gt;• Mortgage Loan Document&lt;br&gt;• Mortgage Loan Documents</td>
<td></td>
</tr>
<tr>
<td>Loan Year</td>
<td>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.</td>
<td></td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Loan Years</td>
<td></td>
</tr>
<tr>
<td>Local Borrower</td>
<td>For Small Mortgage Loans, a Borrower or at least 1 Key Principal of the Borrower that has a primary residence located within 100 miles of the Property.</td>
<td></td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th><strong>Manufactured Home</strong></th>
<th>Factory-built home located on an MH Site.</th>
</tr>
</thead>
</table>

**Synonyms**
- Manufactured Homes

<table>
<thead>
<tr>
<th><strong>Manufactured Housing Community</strong></th>
<th>Residential real estate development with lots on which manufactured homes are located, together with amenities, utility services, landscaping, roads, and other infrastructure.</th>
</tr>
</thead>
</table>

**Synonyms**
- Manufactured Housing Property
- MH Community
- MH Communities
- MHC

<table>
<thead>
<tr>
<th><strong>Master Credit Facility Agreement</strong></th>
<th>Agreement evidencing the terms and conditions of a Credit Facility.</th>
</tr>
</thead>
</table>

| **Material Commercial Lease** | Lease, sublease, license, concession, grant, or other possessory interest for commercial purposes that comprises 5% or more of the Property’s annual EGI, or relates to:

  - solar power, thermal power generation, or co-power generation, or for the installation of solar panels or any other electrical power generation equipment, and any related power purchase agreement; or
  - any Property dwelling units leased to an Affiliate of the Borrower, any Key Principal, or any Principal. |
|-----------------------------|-------------------------------------------------------------------------------------------------------------------------------|

**Synonyms**
- Material Commercial Leases

<table>
<thead>
<tr>
<th><strong>Maturity Date</strong></th>
<th>Date all amounts due and owing under the Mortgage Loan become fully due and payable per the Loan Documents.</th>
</tr>
</thead>
</table>

**Synonyms**
- Maturity Dates
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>MBA</td>
<td>Mortgage Bankers Association</td>
</tr>
<tr>
<td>MBS</td>
<td>Mortgage-Backed Security</td>
</tr>
<tr>
<td>MBS for Bonds</td>
<td>Fannie Mae MBS: • issued to credit enhance tax-exempt Bonds; or • exchanged for Bonds redeemed at MBS issuance.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• MBS Exchange • MTEB • MTEM</td>
</tr>
<tr>
<td>MBS Mortgage Loan</td>
<td>Mortgage Loan purchased by Fannie Mae in exchange for an issued MBS backed by the Mortgage Loan.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• MBS Mortgage Loans</td>
</tr>
<tr>
<td>Medicaid Funds</td>
<td>Funds paid to a provider by governmental authorities or managed care organizations, under Medicaid provider agreements.</td>
</tr>
<tr>
<td>Mezzanine Financing</td>
<td>Subordinate debt financing provided to a direct or indirect owner of a Borrower that is secured by a pledge of the direct or indirect equity interest in the Borrower held by the owner, and not by a Lien on the Property.</td>
</tr>
<tr>
<td>Military Housing Property</td>
<td>Multifamily rental Property in which 40% or more of the units are occupied by individuals serving in, or employed by, the United States military.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Military Housing</td>
</tr>
<tr>
<td>Minimum 1%</td>
<td>For a prepayment, an amount equal to 1% of the UPB.</td>
</tr>
<tr>
<td>Term</td>
<td>Description</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Minimum Good Faith Deposit</td>
<td>Amount you are required to collect when originating a Mortgage Loan per Part IV, Chapter 2: Rate Lock and Committing, Section 203.02: Minimum Good Faith Deposit.</td>
</tr>
<tr>
<td>Moderate Rehabilitation Property</td>
<td>Property that will undergo at least $8,000 per unit of Rehabilitation Work.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Moderate Rehabilitation</td>
</tr>
<tr>
<td>Mortgage Loan</td>
<td>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.</td>
</tr>
</tbody>
</table>
| Synonyms                         | • Mortgage Loans  
• Mortgage Loan's                                                                                                                     |
| Mortgage Loan Delivery Package   | Loan Documents and underwriting material required in connection with the Delivery of a Mortgage Loan.                                         |
| Mortgage Loan Origination Date   | Date you fund a Mortgage Loan to the Borrower.                                                                                              |
| Synonyms                         | • Mortgage Loan's Origination Date  
• Origination Date                                                                                                                          |
<p>| Multifamily Acquisitions         | Team that can be contacted at <a href="mailto:mf_acquisitions@fanniemae.com">mf_acquisitions@fanniemae.com</a>.                                                                                  |</p>
<table>
<thead>
<tr>
<th>Multifamily Affordable Housing Property</th>
<th>Property encumbered by a regulatory agreement, land use restriction agreement, extended use agreement, or similar restriction that limits rents that can be charged to tenants, or imposes income limits on tenants.</th>
</tr>
</thead>
</table>
| **Synonyms**                           | • MAH  
• Multifamily Affordable Housing  
• MAH Property |
| Multifamily Certification and Custody  | Team responsible for taking custody of and certifying Mortgage Loans that can be contacted at  
• multifamcert_team@fanniemae.com,  
• (800) 940-4646, or  
• for submissions:  
  Fannie Mae (Multifamily) Certification and Custody  
  21240 Ridgetop Circle  
  Suite 125-130  
  Sterling, VA 20166. |
| **Synonyms**                           | • DDF  
• Document Delivery Facility  
• Document Delivery System |
<p>| Multifamily Loan Agreement             | Agreement evidencing the terms of a Mortgage Loan using the <strong>Form 6001 series</strong> Loan Documents or another form approved by Fannie Mae. |
| <strong>Synonyms</strong>                           | • Multifamily Loan Agreements |
| Multifamily Mortgage Loan Delivery Package Table of Contents | <strong>Form 6502</strong> or another Fannie Mae-approved Table of Contents for a Mortgage Loan Delivery Package. |
| Multifamily Trading Desk               | Team that quotes interest rate pricing for a Mortgage Loan and can be contacted at (888) 889-1118. |</p>
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multifamily Underwriting Certificate</td>
<td>Multifamily Underwriting Certificate (Form 6460), and/or other agreement approved by Fannie Mae that provides underwriting information for a Mortgage Loan.</td>
</tr>
<tr>
<td>Near Stabilized Property</td>
<td>Newly constructed or recently rehabilitated Property, with all construction or rehabilitation complete, which is expected to achieve Stabilized Residential Occupancy and the applicable required Underwritten Debt Service Coverage Ratio within 120 days after the Mortgage Loan Origination Date.</td>
</tr>
<tr>
<td>Non-Contiguous Parcels</td>
<td>Multiple parcels of land securing a Mortgage Loan that do not share common boundaries or that are separated by dedicated or private streets that are major arterials.</td>
</tr>
<tr>
<td>Non-Recourse Guaranty</td>
<td>Guaranty executed by a Key Principal on Form 4501 series or Form 6015 series, or approved by Fannie Mae.</td>
</tr>
<tr>
<td>Note</td>
<td>Instrument evidencing a Mortgage Loan obligation, including Form 6010 series, any other note approved by Fannie Mae, and all applicable addenda, schedules, and exhibits.</td>
</tr>
<tr>
<td>Open Indenture</td>
<td>Indenture for a Bond transaction where a portion of the Bond proceeds finance projects in addition to the Property securing the Mortgage Loan.</td>
</tr>
</tbody>
</table>
Operations and Maintenance Plan

Written plan, document, or agreement containing ongoing operating, maintenance, or monitoring actions for the Property or its Improvements.

**Synonyms**
- O&M
- O&M Plan
- O&M Plans

Origination Fee

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

**Synonyms**
- Origination Fees

**P**

P&I

Principal and interest

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.

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
### Phase I ESA

Environmental report and site assessment performed according to the process described in current ASTM E 1527, including any report summarizing the conclusions of the assessment.

**Synonyms**
- Phase I Environmental Site Assessment
- Phase I ESAs

### Phase II ESA

Investigation performed according to current ASTM E 1903, or investigation other than a Phase I ESA, that may include analyzing soil, ground water, or building materials for contaminants, including any report summarizing the conclusions of the assessment.

**Synonyms**
- Phase II Environmental Site Assessment

### Plan Number

Number identifying the applicable loan characteristics for any Mortgage Loan that accrues interest at a variable rate at any time during the loan term.

### Portfolio Mortgage Loan

Mortgage Loan purchased by Fannie Mae and held as of a certain date regardless of whether it is a Cash Mortgage Loan or an MBS Mortgage Loan.

**Synonyms**
- Portfolio Mortgage Loans
- Portfolio Mortgage Loan's

### Pre-Existing Mortgage Loan

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

**Synonyms**
- Pre-Existing Mortgage Loans
Pre-Review | Requirement that the Lender obtain Fannie Mae’s approval before Rate Lock of a Mortgage Loan.

Pre-Review Mortgage Loan | Mortgage Loan that is not delegated to you and requires Fannie Mae’s approval before Rate Lock.

Prepayment Premium | For a Mortgage Loan prepayment, amount the Borrower must pay in addition to the prepaid principal and accrued interest per the Loan Documents.

Synonyms
• Prepayment Premiums

Prepayment Premium Period End Date | Last date when a Borrower owes a Prepayment Premium for a voluntary Mortgage Loan prepayment.

Preservation | Renewal or continuation of rent, income and/or occupancy restrictions on multifamily rental housing eligible as an MAH Property, but
• is potentially at risk of being lost from the affordable housing inventory through conversion to market-rate housing, and
• is not receiving new LIHTCs.

PRF | Account you hold accumulating principal amortization payments for variable rate Bond credit enhancements.

Synonyms
• Principal Reserve Fund

Pricing and Underwriting Tier | Tier 1, Tier 2, Tier 3, or Tier 4 per the Multifamily Underwriting Standards (Form 4660).

Synonyms
• Tier
Pricing Memo

Applicable DUS Pricing Memo or non-DUS Pricing Memo communicating pricing for various products and features.

Synonyms
• Pricing Memos

Principal

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

Synonyms
• Principals

Property

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

Synonyms
• Properties
• Property's

Property Condition Assessment

Assessment of the current physical condition and historical operation of the Property.

Synonyms
• PCA
• PNA
• Physical Needs Assessment
• PCAs
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

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

Rehabilitation Reserve Agreement  
Borrower’s agreement to undertake identified Rehabilitation Work, the terms for funding the Rehabilitation Work, and the disbursement of funds from the Rehabilitation Reserve Account (e.g., Form 6222.Mod, Form 6222.Sub, or Form 4523).

Rehabilitation Work  
Aggregate repairs, replacements, or improvements (including all Completion/Repairs) required to be performed and completed within a specified time period after the Mortgage Loan Origination Date for a Moderate Rehabilitation Property.

Remarketing Agent  
Person selected by the Issuer to reset the interest rate on the Bonds in order to resell any Bonds tendered by investors on the interest rate reset date.

Rent-Stabilized Property  
Property where rent increases on more than 50% of the residential units are limited by state or local statutory controls, not by an Affordable Regulatory Agreement.

Synonyms
• Rent-Stabilized Properties
Replacement Reserve

Custodial Account established by the Lender and funded by deposits from the Borrower over the term of the Mortgage Loan to fund the replacement of capital items at the Property.

**Synonyms**
- Replacement Reserves

Replacement Reserve Schedule

The Required Replacement Schedule to the Multifamily Loan Agreement (Form 6001 series) 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

Restabilized Residential Occupancy

Achievement of Underwritten NCF for 3 consecutive months after completion of the ROAR Work.

Restricted Value

Appraised Value assuming a Property's Affordable Regulatory Agreement is in effect.

ROAR Loan

Reduced Occupancy Affordable Rehabilitation Loan

ROAR Stressed NCF

Minimum Underwritten NCF projected to occur during the ROAR Work period at a ROAR Property.

Security

MBS, PFP MBS, or REMIC.
Security Instrument

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

**Synonyms**
- Security Instruments

Senior Mortgage Loan

Senior loan purchased by Fannie Mae.

**Synonyms**
- Senior Mortgage Loans

Seniors Housing Property

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

**Synonyms**
- Seniors Housing

Servicer

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

**Synonyms**
- Servicers
- Servicer's

Servicing Fee

Fee a Servicer receives for collecting payments, managing operational procedures, and assuming your portion of credit risk for a Mortgage Loan, and which may be expressed as a percentage.

**Synonyms**
- Servicing Fees

Servicing File

File for each Mortgage Loan serviced by the Lender.

**Synonyms**
- Servicing Files
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>SIFMA Municipal Swap Index</td>
<td>The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index.</td>
</tr>
<tr>
<td>Skilled Nursing</td>
<td>Seniors Housing Property with units that are highly regulated and provide 24-hour resident supervision and registered nursing care services.</td>
</tr>
<tr>
<td>Small Mortgage Loan</td>
<td>Mortgage Loan with an original loan amount less than or equal to $6 million and underwritten per Part III, Chapter 9: Small Mortgage Loans.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Small Mortgage Loans</td>
</tr>
<tr>
<td>Solar Photovoltaic System</td>
<td>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.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Solar PV System</td>
</tr>
<tr>
<td>Special Flood Hazard Area</td>
<td>Special Flood Hazard Area designated by FEMA.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• SFHA</td>
</tr>
<tr>
<td>Sponsor</td>
<td>Principal equity owner and/or primary decision maker of the Borrower (often the Key Principal or the Person Controlling the Key Principal).</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Sponsors</td>
</tr>
<tr>
<td></td>
<td>• Sponsor's</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Sponsor-Initiated Affordability</td>
<td>Voluntary rent and income restrictions recorded against the Property by the Borrower to preserve or create multifamily affordable housing.</td>
</tr>
<tr>
<td>Stabilized Residential Occupancy</td>
<td>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.</td>
</tr>
<tr>
<td>Standby</td>
<td>Credit enhancement under which Fannie Mae makes principal and interest payments directly to the Bond Trustee (for payment to bondholders) if the Borrower fails to make required mortgage note payments or if a bankruptcy event has occurred.</td>
</tr>
<tr>
<td>Streamlined Rate Lock</td>
<td>Optional process permitting a Rate Lock before completing full Mortgage Loan underwriting, per Part IV, Chapter 3: Streamlined Rate Lock.</td>
</tr>
<tr>
<td>Student Housing Property</td>
<td>A multifamily residential rental property in which 40% or more, but less than 80%, of the units are leased to either undergraduate or graduate students.</td>
</tr>
<tr>
<td>Subordinate Loan</td>
<td>Multifamily residential real estate loan secured by a Lien against the Property having a lesser priority than the Lien securing another multifamily residential real estate loan on the same Property.</td>
</tr>
</tbody>
</table>

**Synonyms**
- SRL
- Student Housing
- Subordinate Loans
Supplemental Mortgage Loan

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

**Synonyms**
- Supplemental Mortgage Loans

T

Taxable Tail

Taxable debt secured by the Property securing the Credit Enhancement Mortgage Loan.

Taxes and Insurance

Taxes or assessments that may become a Lien on the Property and insurance premiums.

**Synonyms**
- T&I
- Tax and Insurance

Third Party MBS Investor

MBS Investor for an MBS Mortgage Loan that is not the Multifamily Trading Desk.

**Synonyms**
- Third Party MBS Investor's

Tier Dropping Supplemental Mortgage Loan

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

**Synonyms**
- Tier Dropping Supplemental Mortgage Loans
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer/Assumption</td>
<td>Transaction resulting in a change in the ownership of the Borrower or Property.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Transfers/Assumptions</td>
</tr>
<tr>
<td>U</td>
<td></td>
</tr>
<tr>
<td>UCC</td>
<td>Uniform Commercial Code</td>
</tr>
<tr>
<td>Underwriting Value</td>
<td>Value of the Property determined by the Lender to size the Mortgage Loan per Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation.</td>
</tr>
<tr>
<td>Underwritten Net Cash Flow</td>
<td>Net Cash Flow as adjusted by the Lender per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products and features in Part III.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Underwritten NCF</td>
</tr>
<tr>
<td>Unrestricted Value</td>
<td>Appraised Value assuming a Property's Affordable Regulatory Agreement is not in effect.</td>
</tr>
<tr>
<td>UPB</td>
<td>Unpaid Principal Balance</td>
</tr>
<tr>
<td>V</td>
<td></td>
</tr>
<tr>
<td>Variable Underwriting Rate</td>
<td>Rate for Structured ARM Mortgage Loans per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1202: Underwriting.</td>
</tr>
<tr>
<td>W</td>
<td></td>
</tr>
<tr>
<td>Watchlist</td>
<td>Mortgage Loan or Property exhibiting heightened credit risk as identified by the Lender or Fannie Mae.</td>
</tr>
<tr>
<td>Y</td>
<td></td>
</tr>
<tr>
<td><strong>Yield Maintenance Period End Date</strong></td>
<td>Last day on which a Borrower owes yield maintenance for a voluntary Mortgage Loan prepayment.</td>
</tr>
</tbody>
</table>

**Synonyms**

- Yield Maintenance Period End Dates