Multifamily Selling and Servicing Guide

Effective as of July 1, 2020

Fannie Mae®

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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.

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

REQUIRED UNDERWRITTEN NCF (STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)		
Item	Function	Description
3	MINUS	Premiums (e.g., identifiable additional income from furnished units or short term leases)and/or corporate premiums (e.g., identifiable additional income from corporate units, housekeeping services, etc.).
4	MINUS	Physical vacancy market rents for vacant units based on a current rent roll (multiplied by 12).[1]
5	MINUS	Concessions - the aggregate amount of forgone residential rental income resulting from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc.[1]
6	MINUS	Bad debt - the aggregate amount of unpaid rental income determined to be uncollectable: include any adjustments to other income for bad debt.[1]
	EQUALS	NET RENTAL INCOME (NRI)
1 The total of Items 4, 5, and 6 must equal or exceed the greater of • the difference between the trailing 12-month net rental collections (annualized) and GPR, or • 5 % of GPR. If trailing 12-month NRI is not available, use a minimum 10% of GPR.		
CALCULATION OF OTHER INCOME		

REQUIRED UNDERWRITTEN NCF (STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)		
Item	Function	Description
7	PLUS	Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must: • be stable; • be common in the market; • exclude one-time extraordinary non-recurring items; and • be supported by prior years. You must assess the individual 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.
CALCULATION OF COMMERCIAL INCOME		
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	Premiums[3] , 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)		
Item	Function	Description
11	PLUS	Corporate premiums[3] , provided that this income must: • not be included for more than 10% of the Propertys units; • be stable or increasing; • be typical (in type and amount) in the market; • be supported by prior years; and • not exceed the income generated over the most recent year or trailing 12-month period.
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)		
Item	Function	Description
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)		
Item	Function	Description
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 ofthe Mortgage Loan amountorassessed 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.

Chapter 3 Moderate Rehabilitation Mortgage Loans

Section 301 Description

Requirements

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

Product Description	
Minimum Per Unit Cost for Rehabilitation Work	$8,000 per unit: • based on the total number of residential units at the Property, not the number of units being rehabilitated; and • includes the estimated cost of all Completion/Repairs identified in the PCA (or MBA StandardInspection Form, if applicable).
Rehabilitation Timing	The Rehabilitation Work must be completed as follows: • items identified as Completion/Repairs in the PCA, per Part II, Chapter 4: Inspections and Reserves, Section 403: Completion/Repairs; • Efficiency Measures qualifying for aGreen Rewards Mortgage Loan, per Part III, Chapter 4: Green Mortgage Loans; • if the Moderate RehabilitationMortgage Loan meets the requirements for using the Appraised Value on an as completed basis (per Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation), then the Rehabilitation Work may be completed after the 12-month period, but not later than 36 months after the Mortgage Loan Origination Date; and • all other Rehabilitation Work, in atimely manner, but not later than 36 months after the Mortgage Loan Origination Date.

Product Description	
Completion/Repair Escrows	For Completion/Repairs identified in aPCA, 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 fundedthrough 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.

Supplemental Mortgage Loans	
Origination Date	• Must be originated within 36 months of the Moderate Rehabilitation Mortgage Loan's Origination Date. • Requireno minimum period to elapse provided the minimum Rehabilitation Work is completed at the Property after origination of the Moderate Rehabilitation Mortgage Loan.
Loan Term	Must be coterminous with the Moderate Rehabilitation Mortgage Loan.
Completed Rehabilitation Work	• Completed Rehabilitation Work or other repairs, replacements, or improvements must comply with this Chapter. • You must document evidence of the - qualifying scope of work completed at the Property,and - cost of work and improvements to the Property verified by you.
Site inspection	You must perform a site inspection if the qualifying work was not completed pursuant to a Completion/Repair Agreement or a Rehabilitation Reserve Agreement. This requirement may be satisfied if the most recent asset management site inspection was conducted after the required work was completed at the Property.
Rate Lock	Are not eligible for the Streamlined Rate Lock option.

Chapter 4 Green Mortgage Loans

Section 401 Generally

401.01 Description

Requirements

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

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

401.02 High Performance Building Module

Requirements

For a Green Rewards Mortgage Loan, you must:

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

Guidance

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

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

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

Green Mortgage Loan.

Operating Procedures

To submit the invoice for the HPB Module or HPB Report for reimbursement, use theGreen 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 that the Property has a Green Building Certification that:
  - is recognized by Fannie Mae and listed in the Green Building Certifications (Form 4250);
  - applies specifically to the Property and not just to a development site that includes the Property;
  - covers all residential units of the Property;
  - was awarded no more than 5 years before Rate Lock; and
  - is in effect at the time of Rate Lock; 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:

Score	Quality of HPB Module, HPB Report, and Technical Solar Report
1	Either you or Fannie Mae may approve as is. No further corrections.
2	The consultant must address minor issues or clarify content before you or Fannie Mae approve it. Minor corrections.

Score	Quality of HPB Module, HPB Report, and Technical Solar Report
3	The consultant must make major changes or multiple revisions before you or Fannie Mae approve it. Substantial issues.

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 andForm 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 in the Completion/Repair Agreement or 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.
- Ensure all Efficiency Measures are completed in a timely manner and no later than
  - 12 months after the Mortgage Loan Origination Date, or
  - any shorter time period 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.
  - Ensure the funds in the Completion/Repair Escrow for any Solar PV System are released only after confirming commercial operation.

403.02B Solar PV System

Requirements

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

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

- The Property will remain connected to the utility grid.
- The Borrower enters into an Operations and Maintenance Plan covering the Mortgage Loan term.
- The Solar PV System has a minimum manufacturer performance warranty of 25-years for the solar panels, and a minimum 10-year product warranty for:
  - solar panels;
  - inverters;
  - racking systems; and
  - batteries for energy storage.
- Roof age and condition support Solar PV System design and installation, and any roof replacement specified in the Technical Solar Report is included as an Efficiency Measure.
- A performance guaranty that covers the full term of the Mortgage Loan is required for systems over 500kW;
- Battery storage is for on-site use only and does not commit the Property to an arrangement with any utility, third-party, or off-site use.
- Outside counsel with Solar PV System experience and state-specific knowledge reviews all applicable local laws and any contracts or agreements related to the Solar PV System installation and operation.
- The Solar PV System installer has a team member or subcontractor who is NABCEP certified.

403.03 Underwritten NCF

☑ Requirements

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

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

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

- replacement reserves.

Guidance

You may include projected energy and water cost savings from implementing selected Efficiency Measures when calculating Underwritten NCF, up to:

- 75 % of any cost savings projected to accrue to the Borrower; plus
- 25 % of any cost savings projected to accrue to the tenants, but only if the projections are based on whole-Property or sampled (not modeled) consumption as defined by Form 4099.

403.04 Maximum Amount

Requirements

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

403.05 Supplemental Mortgage Loans

Requirements

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

Guidance

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

Section 404 Annual Energy Reporting

Requirements

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

- for a Green Rewards Mortgage Loan where the Borrower elects to install a Solar PV System, Modifications to Multifamily Loan and Security Agreement (Green/Solar Mortgage Loan) (Form 6264);
- for any other Green Rewards Mortgage Loan, Modifications to Multifamily Loan and Security Agreement (Green Mortgage Loan) (Form 6241); or
- for any Green Mortgage Loan Property with a Green Building Certification, Modifications to Multifamily Loan and Security Agreement (Green Building Certification) (Form 6267).

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 that:

- is comprised of only Skilled Nursing units; or
- does not meet the Skilled Nursing NCF Test per Part III, Chapter 5: Seniors Housing Properties, Section 504.02: Skilled Nursing NCF Test.

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.

REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		
1		GROSS RENTAL INCOME actual rents in place for occupied units, plus market rents for vacant units based on a current rent roll (multiplied by 12).
2	PLUS	Medicaid income (does not include Medicare, which is included in Skilled Nursing income).
3	PLUS	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]
4	PLUS	To the extent deducted as an operating expense, rents for other non-revenue units (e.g., model units deducted in the model apartment operating expense in the general and administrative category, or actual rent from employee units deducted in the employee operating expense in the payroll and benefits category).
	EQUALS	GROSS POTENTIAL RENT (GPR)
5	MINUS	Physical vacancy market rents for vacant units based on a current rent roll (multiplied by 12).[2]

REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)		
Item	Function	Description
6	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]
7	MINUS	Bad debt the aggregate amount of unpaid rental income determined to be uncollectable: include any adjustments to other income for bad debt.[2]
	EQUALS	NET RENTAL INCOME (NRI)[1]
1 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. 2 The total of Items 5, 6, and 7 must equal the greater of: • the difference between the trailing 3-month net rental collections (annualized) and the GPR;or • the following percentages: - Independent Living: if the percentage of Independent Living units is greater than 50%, then use 5% of GPR. - 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. - 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. - Alzheimers/Dementia Care: if the percentage of Alzheimers/Dementia Care units is 100%, then use 10% of GPR. - Skilled Nursing units: use 20% of collections based on the trailing period used in determining Skilled Nursing income in Item 3. You must determineif NRI declined per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and adjust Underwritten NRI as required.		
CALCULATION OF ASSISTED LIVING SERVICE INCOME AND OTHER INCOME		
8	PLUS	Trailing 12-month nursing/medical income (includes Assisted Living service income).

REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)		
Item	Function	Description
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		
11	PLUS	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.
CALCULATION OF COMMERCIAL INCOME		
12	PLUS	Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable).
13	MINUS	10 % of the actual commercial income.[3]
	EQUALS	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		

REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)		
Item	Function	Description
14	MINUS	Line-by-line stabilized operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a lease-up, rehabilitation, or other short-term positive or negative factors. Non-recurring, extraordinary operating expenses must not be included. You must assess: • past operating history; • the appraisers expense analysis; • all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and • the 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.
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.

REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)		
Item	Function	Description
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 ofthe Mortgage Loan amountorthe assessed value,multiplied by the millage rate, plus any special assessments. You must consider any automatic tax reassessment upon acquisition in the next 12-month period. If the Property has real estate tax abatements, exemptions, or deferrals, they must: • be in effect at closing, per written documentation from the state or local tax assessor; and • survive a foreclosure on the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, or deferral benefit (i.e., it is tied to the Property and not the owner).

REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)		
Item	Function	Description
16 continued	MINUS	If the timeframe for the real estate tax abatement, exemption, or deferral is shorter than the Mortgage Loan term, you must consider • a Bifurcated Mortgage Loan structure (i.e., 2 notes secured by a single first Lien Security Instrument), • an amortization schedule that accommodates the elimination of the abatement, or • providing clear justification and support in the refinance analysis. If the Property is located in New York City and subject to the J-51 Tax Incentive Program where the Borrower has decontrolled rent-stabilized units (a Decontrol Event), you must adjust the current rents to reflect no rent decontrol benefits: • Calculate the base rent as the rent amount per unit before the Decontrol Event date. • Use the base rent for each applicable unit to determine the Gross Rental Income. • Increase the base rent by the appropriate percentage allowed under New York City Rent Stabilization laws per annum through the present rent roll date.
17	MINUS	Insurance equal to: • the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or • 110 % of the current expense, for insurance policies with a remaining term less than 6 months.
18	MINUS	Room expense housekeeping, if applicable.
19	MINUS	Meals expense, if applicable.

REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)		
Item	Function	Description
20	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)
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)		
Item	Function	Description
SKILLED NURSING EFFECTIVE GROSS INCOME		
1		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)).
2	MINUS	20 % of collections based on the trailing period used in determining the Skilled Nursing income.
3	PLUS	Ancillary income attributable to Skilled Nursing units.
	EQUALS	SKILLED NURSING EFFECTIVE GROSS INCOME (EGI)
SKILLED NURSING EXPENSES		
4	MINUS	Fixed expenses greater of actual or allocated fixed expenses (e.g., real estate taxes, liability insurance, etc.) for Skilled Nursing units.
5	MINUS	Variable operating expenses for Skilled Nursing units.
	EQUALS	SKILLED NURSING NCF
6	DIVIDED BY	Underwritten NCF per Part III, Chapter 5: Seniors Housing Properties, Section 504.01: Underwritten NCF.
	EQUALS	SKILLED NURSING NCF PERCENTAGE

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:

Ratios	Requirements
Operating Lease Coverage Ratio	The minimum underwriting ratios for Underwritten NCF to current year operating lease payments are: • 1 .10 for Seniors Housing Properties where more than 50% of the units are Independent Living units; and • 1 .15 for Seniors Housing Properties where 50% or more of the units are Assisted Living, Alzheimers/Dementia Care, or Skilled Nursing units.
Operating Lease Payment to Debt Service Payment Ratio	The minimum underwriting ratios of the current year operating lease payments to the underwritten fixed rate debt service payments are: • 1 .15 for Seniors Housing Properties where more than 50% of the units are Independent Living units; and • 1 .20 for Seniors Housing Properties where 50% or more of the units are Assisted Living, Alzheimers/Dementia Care, or Skilled Nursing units.

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; Borrower-Owned Homes 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 Borrower-owned Manufactured Homes must not exceed 35%. If the percentage of Borrower-owned Manufactured Homes is greater than 25%, then:

- the Borrower's business plan must reflect the conversion of the 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			
Characteristic	Level 3 Quality Rating	Level 4 Quality Rating	Level 5 Quality Rating
	Minimum Standard	Minimum Standard applies (except as detailed)	Level 4 applies (exceptas detailed)
Streets	Paved Roads.	Same as Level 3.	Rolled curbs (if warranted by layout/drainage needs).
Home Sites	• Area under the Manufactured Homes consists of concrete, crushed rock, or dirt. • Entry to the Manufactured Homes is through a patio or porch. • Manufactured Homes are supported by stacks of hollow concrete block or steel pier systems along the main beams (with ground anchors and steel straps holding the frame against movement) that meet local and state requirements.	Same as Level 3 with at least 60% of MH Sites having commercial grade porch/cabanas or patios.	Same as Level 3 with all MH Sites having commercial grade porch/cabanas or patios.

Manufactured Housing Community Quality Rating Standards			
Characteristic	Level 3 Quality Rating	Level 4 Quality Rating	Level 5 Quality Rating
	Minimum Standard	Minimum Standard applies (except as detailed)	Level 4 applies (exceptas detailed)
Site Size	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.	Same as Level 3.	Minimum 50% doublewide MH Sites.
Density	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.	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.	Same as Level 4.

Manufactured Housing Community Quality Rating Standards			
Characteristic	Level 3 Quality Rating	Level 4 Quality Rating	Level 5 Quality Rating
	Minimum Standard	Minimum Standard applies (except as detailed)	Level 4 applies (exceptas detailed)
Skirts/Hitches	100 % of the Manufactured Homes are professionally skirted, with hitches covered or removed. You can meet this requirement through a Completion/Repair Agreement.	Same as Level 3.	All of the Manufactured Homes are professionally skirted, with hitches removed.
Parking	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.	Same as Level 3.	2 paved off-street parking spaces per MH Site.

Manufactured Housing Community Quality Rating Standards			
Characteristic	Level 3 Quality Rating	Level 4 Quality Rating	Level 5 Quality Rating
	Minimum Standard	Minimum Standard applies (except as detailed)	Level 4 applies (exceptas detailed)
Amenities	Not required, but amenity package should be competitive based on market comparables.	Competitive amenity package required.	High quality amenity package competitive with other high-quality MH Communities.

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...	
If you • 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	Then: • 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 underwritethe site rent for those Manufactured Homes.

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; Borrower-Owned Homes and Affiliate-Owned Homes) complies withPart 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.

REQUIRED UNDERWRITTEN NCF (MANUFACTURED HOUSING COMMUNITY)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		

REQUIRED UNDERWRITTEN NCF (MANUFACTURED HOUSING COMMUNITY)		
Item	Function	Description
1		GROSS RENTAL INCOME[1] actual MH Site rents in place where Manufactured Homes are installed under leases with residents in occupancy, plus market rents for vacant MH Sites and MH Sites with vacant Manufactured Homes based on a current rent roll (multiplied by 12).
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.
	EQUALS	GROSS POTENTIAL RENT (GPR)
3	MINUS	Physical vacancy[2] • 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)		
Item	Function	Description
	EQUALS	NET RENTAL INCOME (NRI)[3,4]

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 NRIas required.

CALCULATION OF OTHER INCOME

REQUIRED UNDERWRITTEN NCF (MANUFACTURED HOUSING COMMUNITY)		
Item	Function	Description
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.[5]
CALCULATION OF COMMERCIAL INCOME[6]		
8	PLUS	Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable).
9	PLUS	Actual average RV Site rental income for RV Sites with lease terms of less than 30 days.
10	MINUS	10 % of the actual commercial income (total of Items 8 plus 9).

REQUIRED UNDERWRITTEN NCF (MANUFACTURED HOUSING COMMUNITY)		
Item	Function	Description
5 If the average RV Site rental income for RV Sites with lease terms of 30 days or more is greater than 20% of EGI, then reduce to 20% of EGI. 6 If net commercial income is greater than 10% of EGI, then reduce to 10% of EGI. Additionally, total RV Site income from Items 7 and 9 (less 10% vacancy) cannot exceed 20% of EGI.		
11	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		
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)		
Item	Function	Description
13	MINUS	Property management fee equal to the greatest of: • 3 % of EGI; • actual property management fee (exclude any portion of a non-arms length property management mee 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 ofthe Mortgage Loan amountorthe 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, and include ad valorum taxes for Borrower-owned Manufactured Homes.
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.
16	MINUS	Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.

REQUIRED UNDERWRITTEN NCF (MANUFACTURED HOUSING COMMUNITY)		
Item	Function	Description
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)
17	MINUS	Replacement Reserve expense per Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve, with a minimum annual amount of $25 per MH Site.
	EQUALS	UNDERWRITTEN NCF

Section 607 Replacement Reserve

Requirements

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

Chapter 7 Multifamily Affordable Housing Properties

Section 701 Generally

701.01 Description

Requirements

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

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

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

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

701.02 Eligible Lenders

Requirements

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

Section 702 MAH Property Eligibility

702.01 Eligible Characteristics and Underwriting

Requirements

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

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

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

- **Section 8 HAP contract:** at least 20% of all units are subject to a project-based HAP contract.
- **Special Public Purpose:** the Property
  - is subject to an Affordable Regulatory Agreement imposed by a government entity, containing other rent and/or income restrictions,
  - has rent or income restrictions that meet or exceed **20 % @ 80%:** at least 20% of all units have rent or income restrictions in place making them affordable to households earning no more than 80% of AMI as adjusted for family size, and
  - meets a noteworthy special public purpose.
- **Self-Imposed Restrictions:** Even though a government entity generally imposes rent or income restrictions, the Borrower may voluntarily self-impose such restrictions to preserve multifamily affordable housing. These restrictions must:
  - be placed on record against the Property;
  - remain in place beyond the Mortgage Loan Maturity Date; and
  - be monitored by you or a government entity annually to ensure the Property's compliance.

Guidance

An MAH Property may also:

- be subject to FHA Risk Sharing;
- be financed using tax-exempt Bonds;
- receive LIHTC 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.

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.

Section 703 Property Income and Underwriting

703.01 Underwritten NCF

Requirements

You must use the following table to calculate Underwritten NCF.

REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		

REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
1		GROSS RENTAL INCOME the least of: • 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; • rents permitted under any restrictive covenants, subordinate financing requirements, or an Affordable Regulatory Agreement recorded on the Property; or • actual rents in place for occupied units, plus the lesser of - market rents, or - permitted rents, described above for vacant units based on a current rent roll (multiplied by 12). You must include incremental HAP contract income as described in Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 707.01: Properties with Both HAP Contracts and LIHTC Units.
2	PLUS	To the extent deducted as an operating expense, rents for other non-revenue units (e.g., model units deducted in the model apartment operating expense in the general and administrative category, or actual rent from employee units deducted in the employee operating expense in the payroll and benefits category).
	EQUALS	GROSS POTENTIAL RENT (GPR)
3	MINUS	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).[1]

REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
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.).[1]
5	MINUS	Bad debt the aggregate amount of unpaid rental income determined to be uncollectable: include any adjustments to other income for bad debt.[1]
	EQUALS	NET RENTAL INCOME (NRI)[2]

1 The total of Items 3, 4, and 5 must equal the greater of

- the difference between the trailing 3-month net rental collections (annualized) and GPR, or
- either
  - 5 % of GPR, or
  - 3 % of GPR if:
    - the Property is located in a Strong Market per Form 4660;
    - the Property has a HAP contract that will expire after the Maturity Date; 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.

2 You must assess whether there was any decline in NRI per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.

CALCULATION OF OTHER INCOME[3]

REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
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.
3 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.[4]
4 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		

REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
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[5]; • 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.
5 Minimum management fee may be 3.5% of EGI (rather than 4% of EGI) provided that the: • underwritten management fee is at least $300 per unit; • actual management fee is equal to or less than the underwritten management fee; and • market management fees support the underwritten management fee for similarly sized properties.		

REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
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 ofthe Mortgage Loan amountorthe 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.

REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
12 continued	MINUS	If the Property has real estate tax abatements, exemptions, or deferrals, they must: • be in effect at closing (or at conversion in the case of a Forward Commitment), per written documentation from the state or local tax assessor; • survive a foreclosure on the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, 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)		
Item	Function	Description
12 continued	MINUS	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 states statutes, ▪ been in effect for at least 10 years, and ▪ the Lender conducted all appropriate due diligence and confirmed that there is no material risk that the tax abatement, exemption, or deferral legislation will be repealed or revised in a manner that would affect the Propertys ability to continue to qualify for the tax abatement, exemption, or deferral.

REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
12 continued	MINUS	If the timeframe for the real estate tax abatement, exemption, or deferral is shorter than the Mortgage Loan term, you must consider • a Bifurcated Mortgage Loan structure (i.e., 2 notes secured by a single first Lien Security Instrument), • an amortization schedule that accommodates the elimination of the abatement, or • providing clear justification and support in the refinance analysis.
13	MINUS	Insurance equal to: • the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or • 110 % of the current expense, for insurance policies with a remaining term of less than 6 months.
14	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)
15	MINUS	Replacement Reserve expense per Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF).
	EQUALS	UNDERWRITTEN NCF

703.02 Underwriting

703.02A 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:
  - the Affordable Regulatory Agreement, using
    - comparable multifamily rental properties,
    - the Property's submarket, and
    - properties with similar rent or income restrictions; and
  - 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, and
    - the Property's submarket.
- 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);
  - tax credit benefits; or
  - any perceived special risks or benefits associated with the Property and its Affordable Regulatory Agreement.
- 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 Restabilization Reserve

Requirements

You must establish a Restabilization Reserve for an MAH Property that has a HAP contract if the HAP contract term (disregarding any annual or other incremental government appropriation conditions) expires before the Mortgage Loan Maturity Date.

The Restabilization Reserve must:

- equal the monthly P&I on the Mortgage Loan, 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 and expires after the Mortgage Loan Maturity Date.

703.02E 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.

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, 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, subordinate debt must have all of the following:

- P&I payments made only from the surplus NCF remaining after all other payments (due and owing) are made on Pre-Existing Mortgage Loans;
- unpaid interest that either
  - does not accrue, or
  - accrues, but can only be satisfied from the surplus NCF;
- agreement from the subordinate Lender to execute a Subordination

Agreement with any future first Lien Lender that refinances any UPB on the Mortgage Loan secured by the MAH Property;

- the Borrower’s failure to make an interest or principal payment due to a lack of surplus NCF is not considered a default under the Soft Financing subordinate debt; and
- the Borrower retains a minimum 25% equity share in the surplus NCF unless
  - the Property has LIHTC,
  - the Soft Financing Note is payable to the developer, and
  - the developer (or entities related to the developer) owns or controls more than 50% of the general partner (or equivalent managing) interest of the Borrower.

Guidance

Soft Financing may also include:

- a Loan term significantly longer than the term of the Mortgage Loan, with the subordinate loan either
  - being forgiven over time or at the maturity date of the Soft Financing, or
  - due only upon the sale of the Property;
- a nominal interest rate (e.g., 1% or 2%); or
- principal payments on the Soft Financing that do not fully amortize the subordinate debt over its term.

704.06 Subordinate Lender

Requirements

If the Lender type is...	Then...
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.

If the Lender type is...	Then...
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 that the Borrower only secures a commitment to repay developer advances or unpaid development costs with the proceeds of a mortgage loan secured by the Property if the subordinate financing 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.

Section 705 Restrictive Covenants and Affordable Regulatory Agreements

Requirements

You must review the Affordable Regulatory Agreement to ensure there are no provisions that, if a Borrower defaulted, would

- grant rights, remedies, or powers similar to that of a secured creditor to any aggrieved party, or
- impair the Lien rights or priority of the Lien of the Security Instrument.

If the Affordable Regulatory Agreement contains any of these provisions, Fannie Mae will only purchase the Mortgage Loan if the Affordable Regulatory Agreement is subordinated to the Lien of the Security Instrument

- using a Subordination Agreement approved by Fannie Mae, or
- if the Affordable Regulatory Agreement is in connection with a subordinate loan, using Fannie Mae form 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.

The Affordable Regulatory Agreement does not need to be subordinated to the Lien of the Security Instrument if the Affordable Regulatory Agreement:

- has no Borrower obligations other than the affordability restrictions;
- has no rights or remedies to enforce the affordability restrictions other than specific performance or injunctive relief; and
- terminates upon foreclosure of the Mortgage Loan.

Section 706 ROAR Loan

706.01 Generally

Requirements

You must ensure that 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;
- 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
- is secured by an MAH Property
  - that 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, and
  - the repairs and improvements will be completed within 18 months after the Mortgage Loan Origination Date.

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.

Topic	Description
Underwritten NCF	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.
Appraisal	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.
Occupancy During ROAR Work	Physical Occupancy: minimum of 50%; and Economic Occupancy: minimum of 50%.
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.

Topic	Description
Additional Credit Support	May be required.
Underwriting Fee	You must: • charge the Borrower an underwriting fee equal3 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.

Choice	Requirements
Option 1	Underwrite the rents from HAP contract units using the lowest of • market rents, • HAP contract rents, or • Applicable LIHTC rents.
Option 2	Underwrite the rents from HAP contract units using the additional income above the LIHTC rents (LIHTC overage) if the HAP contract rents are less than market rents. If the HAP contract expires before the Mortgage Loan Maturity Date, you must ensure that: • the Underwritten DSCR is greater than or equal to 1.05 based on the LIHTC rents; and • the Property has an Underwritten DSCR greater than or equal to 1.10 based on the LIHTC rents when the HAP contract expires.

You may use Option 2, or eliminate the Restabilization Reserve under either option, if you meet all of the following:

- all LIHTC rents are at least 10% below market;

- the MAH Property is located in a market or submarket with 90% or greater economic occupancy; and
- the Sponsor is experienced and successful in owning and operating properties with HAP contracts.

707.02 HAP Contract Review Sheet

Requirements

Before you Deliver the Mortgage Loan, you must:

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

Section 708 Refinancing Section 236 Properties – IRP is Maintained

Requirements

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

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

708.01 No Additional Proceeds

Requirements

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

708.02 Additional Proceeds from Mortgage Loan

Requirements

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

- The Mortgage Loan has equal monthly payments of P&I.
- The portion of the Mortgage Loan sized based on the Underwritten NCF meets Fannie Mae's LTV and Underwritten DSCR requirements without considering the IRP cash flow.

- The portion of the Mortgage Loan sized based on the IRP cash flow has an Underwritten DSCR of at least 1.00.
- The financing structure reflects the remaining term of the IRP through a bifurcated note or amortization structure.

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

708.03 Additional Proceeds from Other Sources

Requirements

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

- factor the debt into the Property's overall LTV; and
- comply with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704: Subordinate Financing.

Section 709 LIHTC Properties – Lender Equity Interest

Requirements

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

- 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.
- You comply with the Underwriting Restrictions for Conflict Mortgage Loans per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 310.02: Restrictions.
- Any subordinate loans secured by the Property comply with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704: Subordinate Financing.

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 LIHTC, 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 an 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 an 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 an 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 that:

- All FHA Risk Sharing Mortgage Loans are fixed rate with no interest-only period.
- The minimum Mortgage Loan term is 15 years.
- The Property qualifies as an MAH Property.
- 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.

711.02C Cash Out

Guidance

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

711.03 Mortgage Insurance Premium

Requirements

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

Guidance

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

711.04 Reserving FHA Units

Operating Procedures

Before the Commitment Date you must perform the following steps to reserve units for each Property to be financed with an FHA Risk Sharing Mortgage Loan.

Step 1: You must send the Deal Team a written request to reserve units that includes

- a cover letter, and
- the Fannie Mae/FHA Pre-Application for a Reservation of Risk Sharing Units (Form 4670).

Step 2: You must obtain Fannie Mae's written confirmation of the reservation of units and the proposed Mortgage Loan amount.

The unit reservation will be valid for 120 days (except for FHA Risk Sharing with a Forward Commitment where the unit reservation is valid for the period specified in the Forward Commitment).

Step 3: Before the Commitment Date, you must obtain Fannie Mae's written approval, including any

- variance in the number of units, or
- change in the Mortgage Loan amount referenced in the initial reservation letter.

711.05 Subsidy Layering Review

Requirements

If there is a possibility that more than 1 source of federal, state, or local governmental assistance may fund the transaction, you must submit the subsidy layering information per the FHA Risk Sharing Subsidy Layering Information (Form 4672).

711.06 Lender FHA Risk Sharing Reserve and Loss Sharing Modifications

Operating Procedures

If a Mortgage Loan has been approved for FHA Risk Sharing, your reserve and loss sharing obligations may be reduced per the Mortgage Loan Certificate (Form 6505).

Chapter 8 Cooperative Properties

Section 801 Description

Requirements

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

Section 802 Eligible Mortgage Loans

Requirements

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

You must:

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

802.01 Basic Conditions

Requirements

You must ensure for all the following:

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

802.02 Financial Conditions

Requirements

You must ensure all of the following:

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

802.03 Property Management Conditions

Requirements

You must ensure all of the following:

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

Guidance

The Borrower may manage a Property securing a Small Mortgage Loan with 25 units or less.

802.04 Other Considerations

Guidance

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

- identification of a Key Principal or Principal and the applicable related analysis and obligations per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, orPart III, Chapter 9: Small Mortgage Loans;
- Ground Lease Rents per Part II, Chapter 1: Attributes and Characteristics, Section 104.02: Ground Lease Rents
- Minimum Occupancy per Part II, Chapter 1: Attributes and Characteristics, Section 105: Minimum Occupancy;
- Occupancy per Part III, Chapter 9: Small Mortgage Loans, Section 903: Occupancy; and
- Property Management per Part III, Chapter 9: Small Mortgage Loans, Section 906: Property Management.

Section 803 Underwriting

803.01 Financial Operation

Requirements

As part of your underwriting analysis, you must:

- Examine the year-to-date operational budget.
- Collect, review, and analyze audited financial/operating statements for the last 3 years of operations.
- Ensure that the average Cooperative Maintenance Fee Accounts Receivable for the last 3 years is less than 3% of the annual Cooperative Maintenance Fees.
- Ensure that the Cooperative Operating Reserve at closing is at least 10% of the annual Cooperative Maintenance Fees.

803.02 Property Valuation

Requirements

You must obtain an Appraisal per Part II, Chapter 2: Valuation and Income that provides a value of the Cooperative Property on a Cooperative Market Rental Basis for determining the LTV Ratio perForm 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)		
Item	Function	Description
1		Underwritten NCF as calculated on a Cooperative Market Rental Basis.
2	DIVIDED BY	Annual debt service for the Mortgage Loan amount. You must base debt service on a level debt service payment, including amortization, and the greater of • the actual note rate, or • the required Underwriting Interest Rate Floor per Form 4660. If the Property has subordinate debt, the debt service must include P&Ito 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		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		
1		GROSS RENTAL INCOME current scheduled monthly Cooperative Maintenance Fees for all units (multiplied by 12).

REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW		
Item	Function	Description
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.
	EQUALS	GROSS POTENTIAL RENT (GPR)
4	MINUS	Vacancy included at Fannie Maes sole discretion for any Pre-Review Mortgage Loan.
	EQUALS	NET RENTAL INCOME (NRI)
CALCULATION OF OTHER INCOME		
5	PLUS	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.
CALCULATION OF COMMERCIAL INCOME		
6	PLUS	Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable).
7	PLUS	Actual income from STR units.
8	MINUS	Commercial income economic vacancy included at Fannie Maes sole discretion for any Pre-Review Mortgage Loan. A 10% vacancy rate must be applied to any STR income.[1]
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		
Item	Function	Description
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 Propertys budget. All expenses associated with STR should be underwritten in their respective expense line items.

REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW		
Item	Function	Description
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 greaterofthe assessed value orthe 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		
Item	Function	Description
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 Maes 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		
Item	Function	Description
1		Actual Cooperative NCF per Part III, Chapter 8: Cooperative Properties, Section 804.03: Actual Cooperative Property NCF.
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 UPBof 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:

If the Property contains…	Then it must have…
10 or more units	at least 90% physical occupancy by Qualified Occupants for the 90 days immediately before the Commitment Date.

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

table.

REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		
1		GROSS RENTAL INCOME the lesser of • actual rents in place, or • market rents for occupied units, plus market rents for vacant units based on a current rent roll (multiplied by 12).[1]
2	PLUS	To the extent deducted as an operating expense, rents for other non-revenue units. For example: • model units deducted in the model apartment operating expense in the general and administrative category; • owner-occupied units[2] deducted in the general and administrative category; and • employee units[3] deducted in the employee operating expense in the payroll and benefits category.
	EQUALS	GROSS POTENTIAL RENT (GPR)
3	MINUS	Premiums and corporate premiums.
4	MINUS	Physical vacancy market rents for vacant units based on a current rent roll (multiplied by 12).[4]
5	MINUS	Concessions the aggregate amount of forgone residential rental income resulting from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc.[4]
6	MINUS	Bad debt the aggregate amount of unpaid rental income determined to be uncollectable: include any adjustments to other income for bad debt.[4]
	EQUALS	NET RENTAL INCOME (NRI)

REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
1 (a) In the New York-Northern New Jersey-Long Island, NY-NJ-PA MSA, you may use actual rents in place plus projected increases for rent-regulated units that have rent increases scheduled before, or through, the first 12 months of the loan term. Any units subject to rent regulation on the Commitment Date must be treated as rent-regulated for this calculation even if converting to market rate after origination. (b) For Properties located in New York City that are currently subject to the J51 Tax Incentive Program, you must ensure that the Gross Rental Income complies with Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis. 2 You must deduct owner-occupied units as an expense unless • the Mortgage Loan is Tier 3 or Tier 4, or • the Property contains 24 or more units. 3 You must deduct as an expense the portion of the market rent used as employee compensation. 4 The total of Items 4, 5, and 6 must be greater than or equal to • 3 % of GPR for the New York-Northern New Jersey-Long Island, NY-NJ-PA and San Francisco-Oakland-Fremont, CA, Metropolitan Statistical Areas (MSAs), if supported by market and property operations, or • 5 % of GPR for all other MSAs.		
CALCULATION OF OTHER INCOME		

REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
7	PLUS	Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must: • be stable; • be common in the market; • exclude one-time extraordinary, non-recurring items; and • be supported by prior years. You must assess the individual month 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		
8	PLUS	Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable).
9	PLUS	Actual income from STR units.
10	MINUS	10 % of the actual commercial income (total of Items 8 plus 9).[5]
5 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.		
11	PLUS	Laundry and vending, parking, and all other income as detailed in Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
CALCULATION OF OPERATING EXPENSES		

REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
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.

REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
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 ofthe Small Mortgage Loan amountorthe 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 Propertys 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)		
Item	Function	Description
16	MINUS	Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses as detailed in Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)
17	MINUS	Replacement Reserve expenseequal to at least[6] • $200 per unit, for a Property with an overall rating of 1, • $250 per unit, for a Property with an overall rating of 2, or • $300 per unit, for a Property with an overall rating of 3. The Property ratings are the ratings reported on the Comprehensive Assessment Addendum (Comp Assmt Addendum) tab of the MBA StandardInspection Form.
	EQUALS	UNDERWRITTEN NET CASH FLOW (UNDERWRITTEN NCF)
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.		

905.02 Underwritten DSCR

Requirements

You must calculate Underwritten DSCR per the following table.

UNDERWRITTEN DSCR[1,2]		
Item	Function	Description
1		Underwritten NCF as calculated in Part III, Chapter 9: Small Mortgage Loans, Section 905.01: Small Mortgage Loan Underwritten NCF (Underwritten NCF).
2	DIVIDED BY	Annual debt service for the Mortgage Loan amount. You must base debt service on a level debt service payment, including amortization, and the greater of • the actual note rate, or • the required Underwriting Interest Rate Floor.[3]

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:

Similar in Size	Unit Range
Small Properties	5 50 units

Similar in Size	Unit Range
Medium Properties	51 100 units
Large Properties	101 or more units

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.

Property Size	Professional property management or qualified on-site manager required if...
Less than 10 residential units	non-Local Borrower.
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 110: Property Management and Agreement.

A qualified on-site manager

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

Section 907 Property Condition

907.01 Site Inspection by Lender or Other Third Party

Requirements

You must:

- Ensure a physical inspection of the Property is performed (including any

Property securing a Small Mortgage Loan that is also a Choice Refinance Loan).

- Ensure that 1 of the following completes the physical inspection and the MBA Standard Inspection Form:
  - a qualified employee with the experience required for a third-party evaluator per Part II, Chapter 4: Inspections and Reserves, Section 402: Property Condition Assessment (PCA);
  - a qualified appraiser; or
  - qualified 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 of “4” or “5” reported on the Comp Assmt Addendum tab of the MBA Standard Inspection Form; or
- deferred maintenance with repair costs greater than 10% of the UPB.

907.02 Site Inspection by Borrower

☑ Requirements

You must ensure that the Borrower or the Key Principal:

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

907.03 PCA

Requirements

A PCA is required:

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

Guidance

When a PCA is required, you may use:

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

Section 908 Replacement Reserve

Requirements

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

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

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

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

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

Section 909 Environmental Matters and Inspections

Requirements

Before the Commitment Date, you must:

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

If…	Then…
You obtain credit reports from 2 of the 3 credit information services for a Borrower, Key Principal, Guarantor, or Principal	Use the lower of the 2 scores.
You obtain credit reports from all 3 credit information services, for a Borrower, Key Principal, Guarantor, or Principal	Use the middle score.

If...	Then...
A Borrower, Key Principal, or Principal is married to another Borrower, Key Principal, Guarantor, or Principal	Use the lower FICO score of the 2 married individuals.
A Small Mortgage Loan has multiple individual Borrowers, Key Principals, Guarantors, or Principals	Use the average of their respective FICO scores.

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

Product Description	
Eligibility	You must ensure: • 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. • The Property receives a Fitwel certification before Rate Lock. • The Borrower or an Affiliate did not previously receive this benefit for the same Property.
Certification Cost	Borrowers responsibility.

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

Requirements

Product Description	
Description	For Borrowers who provide resident services that improve the health and well-being of tenants at the Property. Services must correspond to the needs of the tenant population.

Product Description	
Eligibility	You must ensure: • 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. • The Property receives an Enhanced Resident Services (ERS) certification before Rate Lock. • The Sponsor receives a Certified Organization for Resident Engagement & Services (CORES) certification before Rate Lock. • The Borrower or an Affiliate did not previously receive this benefit for the same Property.
Certification Cost	Borrowers responsibility for the cost of all initial and ongoing Property and Sponsor certifications.
Underwriting	You must ensure: • The Sponsor demonstrates a commitment to providing meaningful, coordinated resident services as part of its long-term business strategy. • The Propertys operating budget includes the costs of providing the services. • The underwritten expenses are equal to or greater than the annual dollar amount of the Healthy Housing Rewards ERS pricing reduction. • The underwritten expenses include the pricing reduction and costs of providing the services. • 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.

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.

Category	Pre-Review (4660)	Pricing/Fees
Sub-category	Property Operations & Underwriting Terms	Enhanced Resident Services Certification
Descriptor	Healthy Housing Rewards Enhanced Resident Services	N/A

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
- payments that are adjusted to repay the UPB in substantially equal payments over the remaining amortization period.

Product Description	
Plan Number	02255
Terms	• 5 , 7, or 10 years. • See Pricing Memo for current term availability.
Index	1 -month LIBOR
Interest Rate Floor	Must not be less than the combined • Guaranty Fee, plus • Servicing Fee, plus • investor spread.
Rate Change Date	Date the interest rate changes based on changes in the Index.
Prepayment Availability	• No prepayment during the 1st Loan Year; then prepayable with a 1% Prepayment Premium. • No Prepayment Premium is due - during the last 3 months of the loan term, or - when an ARM Loan converts to a fixed rate Mortgage Loan.

Product Description	
Maturity	Matures on the 5th, 7th, or 10th anniversary of the 1st day of the month: • immediately following the month in which the Mortgage Loan was originated; or • in which the Mortgage Loan was originated, if the Mortgage Loan Origination Date was on the 1st day of a month.
Payments	Scheduled monthly payments are due on the 1st day of each month.
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 ARM 7/6, the • Guaranty Fee, plus • Servicing Fee, plus • 6 %.
Index Look-Back Period	15 days before the Rate Change Date.
Interest Accrual Method	Actual/360
Interest Rate Cap	Not required; interest rate adjustments are subject to an embedded cap.
Conversion to Fixed Rate	Permitted between the 1st day of the 2nd Loan Year and the last day of the: • 4 th Loan Year if the loan term is 5 years; or • 5 th Loan Year if the loan term is greater than 5 years.

Section 1102 Underwriting

☑ Requirements

You must Rate Lock the ARM Loan with the Multifamily Trading Desk (MBS or cash).

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.

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.

Situation	Prepayment Provisions
Borrower attempts to make a voluntary prepayment during the 1st Loan Year.	Borrower may not make a voluntary prepayment during the 1st Loan Year (i.e., a voluntary prepayment is locked out).
ARM Loan is accelerated during the prepayment lockout period.	Borrower owes a 5% Prepayment Premium.
Borrower makes a prepayment after the 1st Loan Year and before the 3 months prior to the Maturity Date for any reason other than a casualty or condemnation.	Borrower owes a Prepayment Premium.
ARM Loan converts to a fixed rate Mortgage Loan.	Borrower does not owe a Prepayment Premium.

Situation	Prepayment Provisions
Borrower makes a prepayment during the 3 months before the Maturity Date.	Borrower does not owe a Prepayment Premium.
Borrower makes a prepayment due to casualty or condemnation.	Borrower does not owe a Prepayment Premium.

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.

Loan Year	5 -Year Term	7 -Year Term	10 -Year Term
1 (Locked Out)[1]	N/A	N/A	N/A
2	1 %	1 %	1 %
3	1 %	1 %	1 %
4	1 %	1 %	1 %
5	1 %	1 %	1 %
6	N/A	1 %	1 %
7	N/A	1 %	1 %
8	N/A	N/A	1 %
9	N/A	N/A	1 %
10	N/A	N/A	1 %
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.			

Chapter 12 Structured Adjustable Rate Mortgage (SARM) Loans

Section 1201 Description

Requirements

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

Product Description	
Plan Numbers	• 03488 for 1-month LIBOR. • 03487 for 3-month LIBOR.
Term	5 to 10 years
Funding Type	MBS or cash
Index	1 - or 3-month LIBOR
Interest Rate Floor	Must not be less than the combined • Guaranty Fee, plus • Servicing Fee, plus • investor spread.
Prepayment Availability	After a 1-year lock-out period, may be voluntarily prepaid per the selected prepayment option.
Minimum Loan Amount	$25 million
Interest Rate	Equals the • Index, plus • Guaranty Fee, plus • Servicing Fee, plus • investor spread.
Interest Rate Adjustment	• Occurs every 1 or 3 months depending on the Index. • Has no limit on number or size of rate changes.
Interest Rate Cap	Required for the entire term of theSARM Loan.

Product Description	
Amortization and Interest Accrual Method	Amortizes with fixed monthly principal installments based on a calculated actual/360 fixed rate payment.
Conversion to Fixed Rate	Permitted, with no prepayment penalty and minimal re-underwriting, between the 1st day of the 2nd Loan Year and the last day of the 4th month preceding the end of the Mortgage Loan term.
Rate Lock	• 45 -day commitments. • No rate change may occur before Delivery.

Section 1202 Underwriting

Requirements

You must calculate the minimum underwritten DSCR based on an amortizing debt service constant.

Minimum Underwritten DSCR	
Variable Underwriting Rate	Equals: • the applicable 1-month LIBOR Index or 3-month LIBOR Index at the time of Rate Lock; plus • the Mortgage Loan margin equal to - the Investors required spread over the applicable 1-month LIBOR Index or 3-month LIBOR Index, plus - the Guaranty Fee, plus - the Servicing Fee; plus • a 3% interest rate spread; plus • a cap cost factor (see Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.03: Including the Cap Cost Factor in the Variable Underwriting Rate of this Chapter for the cap cost factor calculation) if the Borrower does not purchase an Interest Rate Cap for the full term of the SARM Loan at loan origination.

Minimum Underwritten DSCR	
Debt Service Constant	Equals • the Variable Underwriting Rate, plus • the applicable amortization factor based on the Variable Underwriting Rate.

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

- calculated applying the applicable minimum DSCR per Form 4660 for both the
  - Variable Underwriting Rate for the adjustable interest rate, and
  - Fixed Rate Test described in the Form 4660;
- calculated using the applicable maximum LTV Ratio per Form 4660;
- calculated using the minimum Cap Strike Rate, if set by Fannie Mae; and
- you determined is appropriate.

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

Guidance

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

Section 1203 Actual Amortization Calculation

Requirements

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

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

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

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

Operating Procedures

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

For example, for a SARM Loan with a 10-year loan term...	
Guaranty Fee quoted by Fannie Mae	0 .95%
Servicing Fee quoted by Fannie Mae	+ 0.55%
US Treasury and investor spread (quoted by Fannie Mae or Third Party MBS Investor)	+ 4.00%
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.

Calculate the fixed monthly principal installment...	
Aggregate amortization	$4,114,494.17
Divided by total payments	120
Equals fixed monthly principal	$34,287.45

Section 1204 Prepayment Terms

1204.01 Generally

Requirements

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

Situation	Prepayment Provisions
Borrower attempts to make a voluntary prepayment during the 1st Loan Year .	Borrower may not make a voluntary prepayment during the 1st Loan Year (i.e., a voluntary prepayment is locked out).
SARM Loan is accelerated during the prepayment lockout period.	Borrower owes a 5% Prepayment Premium.
Borrower makes a prepayment sometime after the 1st Loan Year and before the 3 months before Maturity Date for any reason other than a casualty or condemnation.	Borrower owes a Prepayment Premium.
SARM Loan converts to a fixed rate Mortgage Loan.	Borrower does not owe a Prepayment Premium.
Borrower makes a prepayment during the 3 months before the Maturity Date.	Borrower does not owe a Prepayment Premium.
Borrower makes a prepayment due to casualty or condemnation.	Borrower does not owe a Prepayment Premium.

1204.02 Prepayment Option 1 – Declining Prepayment Premium Schedule

Requirements

For a voluntary prepayment after the 1-year 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.

Loan Year	5 -Year Term	7 -Year Term	10 -Year Term
1 (Locked Out)[1]	N/A	N/A	N/A
2	4 %	4 %	4 %
3	3 %	3 %	3 %
4	2 %	2 %	2 %
5	1 %	1 %	1 %
6	N/A	1 %	1 %
7	N/A	1 %	1 %
8	N/A	N/A	1 %
9	N/A	N/A	1 %
10	N/A	N/A	1 %

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 1-year 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.

Loan Year	5 -Year Term	7 -Year Term	10 -Year Term
1 (Locked Out)[1]	N/A	N/A	N/A
2	1 %	1 %	1 %
3	1 %	1 %	1 %

Loan Year	5 -Year Term	7 -Year Term	10 -Year Term
4	1 %	1 %	1 %
5	1 %	1 %	1 %
6	N/A	1 %	1 %
7	N/A	1 %	1 %
8	N/A	N/A	1 %
9	N/A	N/A	1 %
10	N/A	N/A	1 %
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

Description	
Interest Rate Cap	Borrower must purchase a third-party Interest Rate Cap.
Interest Rate Cap Provider	Borrower must only obtain bids from providers approved by Fannie Mae as listed on www.fanniemae.com/multifamily.
Interest Rate Cap Documentation	Must be on forms that are acceptable to Fannie Mae.
Minimum Interest Rate Cap Term	5 years. The Borrower must keep an Interest Rate Cap Agreement in place continually until the earlier of the • effective date of any permitted conversion to a fixed rate Mortgage Loan,or • Maturity Date of the SARM Loan.
Replacement Cap	You must ensure that the Borrower purchases a replacement cap if the Interest Rate Cap term expires before the conversion or Maturity Date of the SARM Loan.

Description	
Cap Cost Factor	Equals the cost of a replacement cap divided by the initial cap term.
Interest Rate Cap Reserves	Borrower must fund a cash reserve sufficient to purchase a replacement cap if the Interest Rate Cap term expires before the Maturity Date of the SARM Loan.
Cap Contract Process and Documentation	You must deliver all cap-related documentation to Fannie Mae, including the • Interest Rate Cap Agreement, and • Interest Rate Cap Reserve and Security Agreement (Form 6442). Fannie Mae will engage outside counsel at your expense to review all cap-related documentation.
Initial Interest Rate Cap Notional Amount	Notional amount of the initial Interest Rate Cap throughout its term must equal the original principal amount of the SARM Loan.

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 dates of a LIBOR-based SARM,

- the 1-Month Index for a 1-month SARM Loan exceeds the Cap Strike Rate for a monthly settlement, or
- the 3-Month Index for a 3-month SARM Loan exceeds the Cap Strike Rate for a quarterly 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.

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.

Product Description	
Plan Number	04891
Terms	Permitted combinations of fixed rate and adjustable rate terms: • 5 -year fixed rate term, followed by automatic conversion to a 25-year adjustable rate term; • 7 -year fixed rate term, followed by automatic conversion to a 23-year adjustable rate term; or • 10 -year fixed rate term, followed by automatic conversion to a 20-year adjustable rate term.
Maximum Loan Amount	Per Part III, Chapter 9: Small Mortgage Loans, Section 901.01: Description.
Ineligible Products	• Cooperative Property • Military Housing Property • MAH Property • Near Stabilized Property • Seniors Housing Property • Student Housing Property • Dedicated Student Housing Property • Supplemental Mortgage Loan

Product Description	
Prepayment Premium Options	Either • standard yield maintenance, or • graduated Prepayment Premium.
Prepayment Premium Period End Date / Yield Maintenance Period End Date	Final day of the last Loan Year of the applicable fixed rate term.
Conversion to Adjustable Rate	Automatic conversion from a fixed rate to an adjustable rate on the 1st day of the 1st Loan Year following the applicable fixed rate term.
Index During Adjustable Rate Term	6 -month LIBOR.
Interest Rate Floor	Must not be less than the combined • Guaranty Fee, plus • Servicing Fee, plus • investor spread (per Form 4660).
Rate Change Date	Date the interest rate changes based on changes in the selected Index.
Gross Note Rate During Adjustable Rate Term	Equals the • Index, plus • Guaranty Fee, plus • Servicing Fee, plus • investor spread (per Form 4660).
Interest Rate Change Frequency During Adjustable Rate Term	Every 6 months, based on changes in the Index.
Frequency of Payment Change During Adjustable Rate Term	P&I are recalculated every 6 months on the Rate Change Date.
Maximum Interest Rate Change	Plus or minus 1% of the then-current interest rate both • at conversion from fixed rate to adjustable rate, and • during the adjustable rate term.

Product Description	
Maximum Interest Rate During Adjustable Rate Term	5 % over the fixed rate.
Index Look-Back Period	45 days before the Rate Change Date.
Interest Accrual Method	Mustbe • Actual/360, or • 30 /360.
Payments	Calculated using a 30/360 interest accrual method.
Interest-Only	Must not exceed the fixed rate term.

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.

Requirements

You must select from 3 Prepayment Premium options.

PREPAYMENT Option 1 – 5% Declining Prepayment Premium Schedule			
Loan Year	5 -Year Term	7 -Year Term	10 -Year Term
1	5 %	5 %	5 %
2	4 %	5 %	5 %
3	3 %	4 %	4 %
4	2 %	4 %	4 %
5	1 %	3 %	3 %
6	N/A	2 %	3 %
7	N/A	1 %	2 %
8	N/A	N/A	2 %
9	N/A	N/A	1 %
10	N/A	N/A	1 %

PREPAYMENT Option 2 – 3% Declining Prepayment Premium Schedule			
Loan Year	5 -Year Term	7 -Year Term	10 -Year Term
1	3 %	3 %	3 %
2	2 %	3 %	3 %
3	1 %	2 %	3 %
4	1 %	2 %	2 %
5	1 %	1 %	2 %
6	N/A	1 %	2 %
7	N/A	1 %	1 %
8	N/A	N/A	1 %
9	N/A	N/A	1 %

PREPAYMENT Option 2 – 3% Declining Prepayment Premium Schedule			
Loan Year	5 -Year Term	7 -Year Term	10 -Year Term
10	N/A	N/A	1 %

PREPAYMENT Option 3 – Standard Yield Maintenance			
Loan Year	5 -Year Term	7 -Year Term	10 -Year Term
Yield Maintenance Ends	Last day of the 5th Loan Year	Last day of the 7th Loan Year	Last day of the 10th Loan Year

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.

1304.03 During the Adjustable Rate Term

Requirements

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

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

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

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

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

Operating Procedures

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

For example:

A 5-year Hybrid ARM Loan with the following terms:	
Loan Amount	$2,500,000
Fixed Rate	5 .25%
Fixed Rate Term	60 months
Amortization Term	360 months
Fixed Rate Period	Standard fixed payment amortization
Monthly Payment	$13,805.09
UPB at End of Month 60	$2,303,737.20

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%
Amortization Term	300 months
Monthly Payment	$12,480.22
Interest Payment	(4.25% / 360 months) x 30 days x UPB
Principal Payment	Monthly Payment Interest Payment
UPB at End of Month 66	$2,277,579.64

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 months) x 30 days x 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

Product Description	
Lender Eligibility	You must be the Servicer of all Pre-Existing Mortgage Loans on the Property.
Ineligible Products	Hybrid ARM Loan
Loan History	Pre-Existing Mortgage Loan is not on the current Fannie Mae Watchlist.
Origination Date	At least 12 months must elapse between the origination dates of the most recent Pre-Existing Mortgage Loan and the Supplemental Mortgage Loan, unless the Loan Documents expressly permit a shorter time.

Product Description	
Maximum Number of Supplemental Mortgage Loans	Only 1 Supplemental Mortgage Loan is permitted during the Senior Mortgage Loan term unless: • it is a Moderate Rehabilitation Supplemental Mortgage Loan; • it is a Green Rewards Supplemental Mortgage Loan where 100% of the proceeds are used to implement selected Efficiency Measures; or • 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.
Minimum Supplemental Loan Term	5 years provided that: • 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 • 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.
Mortgage Loan Amount	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.

Product Description	
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.

Pre-Existing Mortgage Loans	
If the Interest Rate Type is	Use an amortizing Debt Service Amount based on the
Fixed Rate	Gross Note Rate.
Adjustable Rate	• origination loan amount; • amortization term; and • Variable Underwriting Rate per the applicable Part III Chapters.

Supplemental Mortgage Loan	
If the Interest Rate Type is	Use an amortizing Debt Service Amount based on the greater of the Gross Note Rate or the
Fixed Rate	applicable Underwriting Interest Rate Floor per Form 4660.
Adjustable Rate	Variable Underwriting Rate per the applicable Part III Chapters.

1402.03C Calculating the DSCR and LTV

Requirements

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

Supplemental Mortgage Loan	
DSCR	The combined debt service of • all Pre-Existing Mortgage Loans, plus • the Supplemental Mortgage Loan.
LTV	The combined • aggregateUPB of all Pre-Existing Mortgage Loans, plus • the principal amount of the Supplemental Mortgage Loan.

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

Tier Dropping Eligibility	
If the Pre-Existing Mortgage Loan is...	It is eligible for a Tier Dropping Supplemental Mortgage Loan if...
Cash	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.

Tier Dropping Eligibility	
If the Pre-Existing Mortgage Loan is...	It is eligible for a Tier Dropping Supplemental Mortgage Loan if...
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

Streamlined Underwriting	
Zoning	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.
Appraisal	You must obtain a new Appraisal.

Streamlined Underwriting	
Property Management	If there has been or will be a Property management change, you must comply with Part II, Chapter 1: Attributes and Characteristics, Section 110.01: Property Management.
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; • the Borrower executes an Environmental Indemnity Agreement (Form 6085 series); • an environmental Transaction Screen using ASTM E-1528 Standard Practice for Limited Environmental Due Diligence is performed and finds no potential environmental concerns; • 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

Topic	Split Mortgage Loans	Bifurcated Mortgage Loans
Closing	Subordinate Loan closing must occur on, or within 12 months after, the Senior Mortgage Loan closing.	Must occur on the same date.
Loan Amount	Aggregate original principal amounts of the Senior Mortgage Loan and the Subordinate Loan.	Aggregate original principal amounts of the 2 Notes. If any proceeds are based on an IRP, Part III, Chapter 7: Multifamily Affordable Housing Properties applies.
Purpose	Either acquisition or refinancing.	Either acquisition or refinancing.

Topic	Split Mortgage Loans	Bifurcated Mortgage Loans
Underwriting	The 2 Mortgage Loans must: • not have a combined LTV higher than the maximum standard for a Senior Mortgage Loan; • not have a combined DSCR lower than the minimum standard for a Senior Mortgage Loan; and • be cross-defaulted.	Must not have a combined: • LTV higher than the maximum standard for a Senior Mortgage Loan; and • DSCR lower than the minimum standard for a Senior Mortgage Loan.
Interest Rate Structures	Either a fixed or variable interest rate. If you use a combination of fixed and variable interest rates, you must comply with Part III, Chapter 14: Supplemental Mortgage Loans.	Either a fixed or variable interest rate. If you use a combination of fixed and variable interest rates, each Note must have its own MBS.
Documentation	2 separate sets of Loan Documents:1 for the Senior Mortgage Loan and 1 for the Subordinate Loan.	1 set of Loan Documents, but evidenced by 2 separate Notes. The Notes must be pari passu.
Securitization	2 separate MBS: 1 for the Senior Mortgage Loan and 1 for the Subordinate Loan. Additional Disclosure per Form 4098 will be required if a partial release of collateral is permitted for either Mortgage Loan.	1 MBS unless multiple Interest Rate Structures. Additional Disclosure per Form 4098 must be required if a partial release of collateral is permitted for either Note.
Hazard Insurance	Coverage based on the combined UPB of the Senior Mortgage Loan and the Subordinate Loan.	Consistent with Senior Mortgage Loans.

Topic	Split Mortgage Loans	Bifurcated Mortgage Loans
Title Insurance	Separate title insurance policies for the Senior Mortgage Loan and Subordinate Loan, in the respective amounts of each loan.	Consistent with Senior Mortgage Loans.
UCC Financing Statements	Filings for both the Senior Mortgage Loan and Subordinate Loan.	Consistent with Senior Mortgage Loans.

Guidance

Topic	Split Mortgage Loans	Bifurcated Mortgage Loans
Maturity Date	2 Mortgage Loans may have different Maturity Dates if the Subordinate Loan is resubordinated per Part III, Chapter 14: Supplemental Mortgage Loans.	2 Notes may have different Maturity Dates and Yield Maintenance Period End Dates.

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.

Topic	Requirements
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 • the Mezzanine Financing.

Topic	Requirements
Refinance Analysis	Prepare a refinance analysis that: • incorporates the terms of both the Mortgage Loan and the Mezzanine Financing; • demonstrates that the Borrower will - maintain a positive equity position in the Property throughout the term of the Mortgage Loan, or - have some other incentive (e.g., continuing cash flow) to remain committed to the Property and its successful operation; and • concludes that there will be sufficient cash flow, NCF growth, and residual value to pay off the Mortgage Loan and the Mezzanine Financing at maturity (as fully extended, if applicable).
Experience	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. 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 • sufficient experience managing the scope of the proposed rehabilitation, and • strong property management experience in the local market.
Mezzanine Borrower Structure	Ensure the mezzanine borrower is • 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.

Topic	Requirements
Appraisal	If the Mezzanine Financing is funding rehabilitation, ensure the Appraisal states the Propertys as-is and as-completed values.
Third-Party Reports	For Mortgage Loans with DLA Mezzanine Financing, include in the underwriting submission, on behalf of your DL Mezzanine Affiliateany: • internal or third-party inspection reports; • PCAs; and • architects or engineers reports (or other similar reports) related to the Mezzanine Financing.

Guidance

You may require a Completion Guaranty (Form 6018).

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

1601.03 Submission

1601.03A Materials

Operating Procedures

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

- the Mezzanine Financing sizing model;
- a sources and uses of funds reflecting the Mezzanine Financing proceeds;
- any approvals associated with the Mezzanine Financing; and
- for any Mezzanine Financing that finances rehabilitation:
  - a description of the proposed rehabilitation;
  - the approved rehabilitation budget;
  - the rehabilitation timeline; and
  - the construction or rehabilitation documents.

1601.03B Data

Operating Procedures

To obtain a Commitment, you must complete the Mezzanine Financing fields in DUS Gateway.

1601.04 Intercreditor Agreement

Requirements

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

Operating Procedures

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

Guidance

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

1601.05 Servicing

Operating Procedures

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

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

Section 1602 Preferred Equity

1602.01 Description

1602.01A Definitions

Requirements

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

Fannie Mae defines 2 types of Preferred Equity.

Type	Definition
Soft Preferred Equity	Preferred Equity that: • 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; • has organizational documents that explicitly state that the preferred return may accrue if cash flow from operations is insufficient to pay the return; and • does not have a maturity date, redemption date, trigger date, or require repayment during the term of the Mortgage Loan.
Hard Preferred Equity	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.

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 LIHTC.

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.

Requirements

For any Mortgage Loan with Preferred Equity, you must comply with the following table.

Topic	Requirements
Guaranty	If the holder of the Preferred Equity benefits from a guaranty or similar indemnity that contains recourse events or similar obligations not otherwise contained in the Loan Documents, you must • submit the modifications to Fannie Mae for review and approval, and • if approved by Fannie Mae, add the events or obligations to the appropriate Loan Document.
Refinance Analysis	Prepare a refinance analysis that: • incorporates the terms of both the Mortgage Loan and the Preferred Equity; • demonstrates that the Borrower will - maintain a positive equity position in the Property throughout the term of the Mortgage Loan, or - have some other incentive (e.g., continuing cash flow) to remain committed to the Property and its successful operation; and • concludes that there will be sufficient cash flow, NCF growth, and residual value to pay off the Mortgage Loan and the Preferred Equity (if applicable) at maturity.

Topic	Requirements
Replacement Guarantor	Identify an acceptable replacement guarantor that complies with theGuide 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.

The minimum Credit Facility transaction amount is $100 million.

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.

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:

- 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.

Operating Procedures

Fannie Mae will engage outside counsel at your expense to prepare the Bulk Delivery Agreement.

You may require the Borrower to

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

Chapter 18 Choice Refinance Loans

Section 1801 Eligibility

Requirements

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:

Topic	Requirements
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 Premium

Requirements

You must not waive any portion of the Prepayment Premium if the Portfolio Mortgage Loan

- has a minimum Prepayment Premium other than 1%, or
- is a fixed rate MBS Mortgage Loan with an Issue Date before April 1, 1999.

Guidance

For all other Choice Refinance Loans:

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

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:

- the Borrower enters into an Environmental Indemnity Agreement (Form 6085);
- you perform an environmental database search per the Instructions for Performing a Multifamily Property Condition Assessment – Environmental Matters (Form 4251), and determine that there are no adverse conditions requiring further due diligence; 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 110: Property Management and Agreement.

1804.08 Replacement Reserve

Requirements

You must ensure the Replacement Reserve is funded as follows:

If...	Then...
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.
The Property is located in • a Strong Market, • a Nationwide Market, or • a Pre-Review Market that is eligible for Tier 3 and Tier 4 Mortgage Loans on a delegated basis per Section II of the Form 4660.	You must determine the Replacement Reserve funding per Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve.

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), andPart III, Chapter 18: Choice Refinance Loans, Section 1804.03: Environmental Site Assessment provided that you comply withPart 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.

Glossary

A

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
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).
Age-Restricted MH Community	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).
All-Age MH Community	MH Community that accepts residents of any age.
Alzheimer's/Dementia Care	Seniors Housing Property with units and beds for residents with significant cognitive impairment resulting from Alzheimer's disease or other dementia, which are typically licensed and regulated by a state or local government authority. **Synonyms** • ALZ
Appraisal	Written statement independently and impartially prepared by a qualified appraiser stating an opinion of the market value of the Property as of a specific date, supported by the presentation and analysis of relevant market information. **Synonyms** • Appraisals

Appraised Value	Appraiser’s opinion of the market value of the Property documented in the Appraisal, on an “as is” basis, unless use of an “as completed” basis is specifically permitted by the Guide. **Synonyms** • Appraised Values
Assisted Living	Seniors Housing Property offering services limited to non-medical personal care, including ADL assistance, which are typically licensed and regulated by a state or local governmental authority. **Synonyms** • AL
ASTM	American Society for Testing Materials

B

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

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

C

Cap Strike Rate	Maximum specified Index interest rate that will trigger a payment obligation by the Interest Rate Cap provider.
Choice Refinance Loan	Mortgage Loan refinancing a Portfolio Mortgage Loan using streamlined underwriting per Part III, Chapter 18: Choice Refinance Loans. **Synonyms** • Choice Refinance Loans
Co-Tenant Borrower	Borrower consisting of tenants-in-common that own the Property in equal or unequal shares. **Synonyms** • Co-Tenant Borrowers
Collateral	Property, Personal Property, or other property securing a Mortgage Loan.

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

Control	Possessing, directly or indirectly, the power to direct or cause the management and operations of an entity (e.g., through the ownership of voting securities or other ownership interests, or by contract). **Synonyms** • Controlling • Controlled • Controls
Cooperative Gross Sellout Value	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.
Cooperative Maintenance Fee	Periodic fee assessed each shareholder or owner of a Cooperative Organization to fund costs and expenses associated with ongoing operations of the Cooperative Property. **Synonyms** • Cooperative Maintenance Fees
Cooperative Maintenance Fee Accounts Receivable	Cooperative Maintenance Fees due the Cooperative Organization that are more than 30 days past due.
Cooperative Market Rental Basis	Financial analysis or valuation of a Cooperative Property conducted as if it were operated as a conventional multifamily property subject to applicable rental restrictions.
Cooperative Operating Reserve	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.

Cooperative Organization	Corporation or legal entity where each shareholder or equity owner is granted the right to occupy a unit in a multifamily residential property under a proprietary lease or occupancy agreement.
Cooperative Property	Multifamily residential property owned by a Cooperative Organization. **Synonyms** • Coop • Cooperative
Cooperative Property Sponsor	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.
Credit Enhancement Instrument	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. **Synonyms** • Credit Enhancement Instruments
Credit Enhancement Mortgage Loan	Mortgage Loan underwritten and serviced by the Lender and financed by the issuance of Bonds where Fannie Mae is providing a Credit Enhancement Instrument. **Synonyms** • Credit Enhancement Mortgage Loans

Credit Facility	Structured Transaction that • is governed by a Master Credit Facility Agreement, and • includes cross-collateralized and cross-defaulted Mortgage Loans and Properties. **Synonyms** • Credit Facilities

D

Decontrol Event	For Properties located in New York City, an event that causes a property or unit to be removed from rent control but subject to rent-stabilization pursuant to New York City rent stabilization laws.
Dedicated Student Housing Property	Multifamily rental Property in which 80% or more of the units are leased to undergraduate or graduate students. **Synonyms** • Dedicated Student Housing
Delivery	Submission of all correct, accurate, and certifiable documents, data, and information with all applicable documents properly completed, executed, and recorded as needed, and any deficiencies resolved to Fannie Mae's satisfaction. **Synonyms** • Deliver • Delivered • Deliveries
Dual Commitment Option	For a Streamlined Rate Lock Mortgage Loan trade with the Multifamily Trading Desk, your ability to increase the Mortgage Loan Rate Lock amount.
DUS	Delegated Underwriting and Servicing

DUS Gateway	Multifamily pre-acquisition system including deal registration, Pre-Review and/or waiver tracking, decision records, or any successor systems.
DUS Lender	Lender approved to Deliver loans under the Delegated Underwriting and Servicing program. **Synonyms** • DL

E

Efficiency Measures	Energy- and water-efficiency measures that the Borrower agrees to implement, 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 per Part XV of the DUS Guide, subject to certain conditions. **Synonyms** • Forward Commitments

G

Green Building Certification	Designation awarded by a third-party organization that is recognized by Fannie Mae and listed in the Green Building Certifications (Form 4250) for multifamily properties constructed or maintained to meet specified energy and water efficiency standards or other sustainability criteria.
Green Mortgage Loan	Mortgage Loan secured by a Property that incorporates features expected to have a positive environmental outcome including, but not limited to, reducing energy and water consumption at a Property, generating energy, or meeting criteria set by a third-party green building certification organization. **Synonyms** • Green Mortgage Loans
Green Rewards Mortgage Loan	Mortgage Loan secured by a Property where the Borrower agrees to undertake 1 or more Energy- and Water-Efficiency Measures that comply with Part III, Chapter 4: Green Mortgage Loans, Section 403: Green Rewards Mortgage Loans. **Synonyms** • Green Rewards Mortgage Loans • Green Rewards
Gross Note Rate	Interest rate stated in the Loan Documents.
Ground Lease	Contract for the rental of land, usually on a long term basis.
Guarantor	Key Principal or other Person executing a Payment Guaranty, Non-Recourse Guaranty, or any other guaranty related to the Mortgage Loan. **Synonyms** • Guarantors

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

H

HPB	High Performance Building
HUD	U.S. Department of Housing and Urban Development
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

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.
Interest Rate Cap	Interest rate agreement between the Borrower and a hedge 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 interest payments on the Mortgage Loan. **Synonyms** • 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
IRP	Interest Reduction Payment **Synonyms** • Interest Reduction Payment
Issue Date	First day of the month a Security is issued.

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
Lender	Person approved by Fannie Mae to sell or service Mortgage Loans. **Synonyms** • Lenders • Lender's
Lender Affiliate	Other Person or entity that Controls, is Controlled by, or is under common Control with, the Lender.
Letter of Credit	Letter of Credit approved by Fannie Mae per Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit. **Synonyms** • Letters of Credit • LOC • LOCs

LIBOR	London Interbank Offered Rate is the benchmark interest rate banks quote to lend funds to one another in the international interbank market for short-term loans, or as replaced by an alternative Index determined by Fannie Mae.
Lien	Lien, mortgage, bond interest, pledge, security interest, charge, or encumbrance of any kind. **Synonyms** • Liens
Limited Equity Cooperative Property	Cooperative Organization that has income, rent, or equity build-up restriction (not including any transfer taxes), which may be dictated by a governmental entity, a third-party capital provider, or its own organizational documents. **Synonyms** • Limited Equity Cooperative Properties
Loan Documentation Requirements	Loan Documents listed in Form 6000 applicable to the particular Mortgage Loan execution and/or product and features.
Loan Documents	All documents evidencing, securing, or guaranteeing the debt obligation executed for a Mortgage Loan and approved by Fannie Mae. **Synonyms** • Loan Document • Mortgage Loan Document • Mortgage Loan Documents
Loan Year	Period beginning on the date of the Note and ending on the last day of the month that is 12 full months after the date of the Note, and each successive 12-month period thereafter.

Local Borrower	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.

M

Manufactured Home	Factory-built home located on an MH Site. **Synonyms** • Manufactured Homes
Manufactured Housing Community	Residential real estate development with lots on which manufactured homes are located, together with amenities, utility services, landscaping, roads, and other infrastructure. **Synonyms** • Manufactured Housing Property • MH Community • MH Communities • MHC
Master Credit Facility Agreement	Agreement evidencing the terms and conditions of a Credit Facility.
Material Commercial Lease	Lease, sublease, license, concession, grant, or other possessory interest for commercial purposes that comprises 5% or more of the Property's annual EGI, or relates to: • solar power, thermal power generation, or co-power generation, or for the installation of solar panels or any other electrical power generation equipment, and any related power purchase agreement; or • any Property dwelling units leased to an Affiliate of the Borrower, any Key Principal, or any Principal. **Synonyms** • Material Commercial Leases

Maturity Date	Date all amounts due and owing under the Mortgage Loan become fully due and payable per the Loan Documents. **Synonyms** • Maturity Dates
MBA	Mortgage Bankers Association
MBS	Mortgage-Backed Security
MBS Mortgage Loan	Mortgage Loan purchased by Fannie Mae in exchange for an issued MBS backed by the Mortgage Loan. **Synonyms** • MBS Mortgage Loans
Medicaid Funds	Funds paid to a provider by governmental authorities or managed care organizations, under Medicaid provider agreements.
Mezzanine Financing	Subordinate debt financing provided to a direct or indirect owner of a Borrower that is secured by a pledge of the direct or indirect equity interest in the Borrower held by the owner, and not by a Lien on the Property.
Military Housing Property	Multifamily rental Property in which 40% or more of the units are occupied by individuals serving in, or employed by, the United States military. **Synonyms** • Military Housing
Minimum 1% Prepayment Premium	For a prepayment, an amount equal to 1% of the UPB.

Moderate Rehabilitation Property	Property that will undergo at least $8,000 per unit of Rehabilitation Work. **Synonyms** • Moderate Rehabilitation
Mortgage Loan	Mortgage debt obligation evidenced, or when made will be evidenced, by the Loan Documents or a mortgage debt obligation with a Fannie Mae credit enhancement. **Synonyms** • Mortgage Loans • Mortgage Loan's
Mortgage Loan Origination Date	Date you fund a Mortgage Loan to the Borrower. **Synonyms** • Mortgage Loan's Origination Date • Origination Date
Multifamily Loan Agreement	Agreement evidencing the terms of a Mortgage Loan using the Form 6001 series Loan Documents or another form approved by Fannie Mae.
Multifamily Mortgage Loan Delivery Package Table of Contents	Form 6502 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.
Multifamily Underwriting Certificate	Multifamily Underwriting Certificate (Form 6460), and/or other agreement approved by Fannie Mae that provides underwriting information for a Mortgage Loan.

N

Near Stabilized Property

Newly constructed or recently rehabilitated Property, with all construction or rehabilitation complete, which is expected to achieve Stabilized Residential Occupancy and the applicable required Underwritten Debt Service Coverage Ratio within 120 days after the Mortgage Loan Origination Date.

Non-Contiguous Parcels

Multiple parcels of land securing a Mortgage Loan that do not share common boundaries or that are separated by dedicated or private streets that are major arterials.

Synonyms
- Non-Contiguous Parcel

Non-Recourse Guaranty

Guaranty executed by a Key Principal on Form 4501 series or Form 6015 series, or approved by Fannie Mae.

Synonyms
- Guaranty of Non-Recourse Obligations

Note

Instrument evidencing a Mortgage Loan obligation, including Form 6010 series, any other note approved by Fannie Mae, and all applicable addenda, schedules, and exhibits.

Synonyms
- Notes

O

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
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
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 LIHTC.
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

R

Rate Lock	Agreement between you and the Investor containing the terms of the Lender-Arranged Sale or Multifamily Trading Desk trade of the Mortgage Loan and the MBS terms and conditions relating to the underlying MBS, if applicable, which may be documented via a recorded telephone conversation. **Synonyms** • Rate Locks
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.
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) a Replacement Reserve and Security Agreement (Form 4506), or another agreement approved by Fannie Mae, that evidences: • the Borrower's agreement to undertake identified replacement of capital items and required maintenance; • the terms for funding such replacement of capital items and maintenance; and • the disbursement of funds from the Replacement Reserve. **Synonyms** • Replacement Reserve Schedules
Restabilized Residential Occupancy	Achievement of Underwritten NCF for 3 consecutive months after completion of the ROAR Work.

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.

S

Security	MBS, PFP MBS, or REMIC.
Security Instrument	Instrument creating a lien or encumbrance on 1 or more Properties and securing the obligations under the Loan Documents.
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
Servicing Fee	Fee a Servicer receives for collecting payments, managing operational procedures, and assuming your portion of credit risk for a Mortgage Loan. **Synonyms** • Servicing Fees

Servicing File	File for each Mortgage Loan serviced by the Lender. **Synonyms** • Servicing Files
Skilled Nursing	Seniors Housing Property with units that are highly regulated and provide 24-hour resident supervision and registered nursing care services.
Small Mortgage Loan	Mortgage Loan with an original loan amount less than or equal to $6 million and underwritten per Part III, Chapter 9: Small Mortgage Loans. **Synonyms** • Small Mortgage Loans
Solar Photovoltaic System	A renewable energy system that converts sunlight into electricity. **Synonyms** • Solar PV System
Sponsor	Principal equity owner and/or primary decision maker of the Borrower (often the Key Principal or the Person Controlling the Key Principal). **Synonyms** • Sponsors • Sponsor's
Stabilized Residential Occupancy	Percentage of Property units physically occupied by Qualified Occupants, per Part II, Chapter 1: Attributes and Characteristics, Section 105.02: Qualified Occupants as adjusted for the applicable Part III products and features.

Streamlined Rate Lock	Optional process permitting a Rate Lock before completing full Mortgage Loan underwriting, per Part IV, Chapter 3: Streamlined Rate Lock. **Synonyms** • SRL
Student Housing Property	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. **Synonyms** • Student Housing
Subordinate Loan	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. **Synonyms** • 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

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
Transfer/Assumption	Transaction resulting in a change in the ownership of the Borrower or Property. **Synonyms** • Transfers/Assumptions

U

UCC	Uniform Commercial Code
Underwriting Value	Value of the Property determined by the Lender to size the Mortgage Loan per Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation.

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

V

Variable Underwriting Rate	Rate for Structured ARM Mortgage Loans per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1202: Underwriting.

W

Watchlist	Mortgage Loan or Property exhibiting heightened credit risk as identified by the Lender or Fannie Mae.

Y

Yield Maintenance Period End Date	Last day on which a Borrower owes yield maintenance for a voluntary Mortgage Loan prepayment. **Synonyms** • Yield Maintenance Period End Dates