



# Multifamily Selling and Servicing Guide

Effective as of November 25, 2019

No portion of this Multifamily Selling and Servicing Guide may be reproduced in any form or by any means without Fannie Mae's prior written permission, except as may be provided herein or unless otherwise permitted by law. Limited permission to reproduce this Multifamily Selling and Servicing Guide in print, in whole or in part, and limited permission to distribute electronically parts of this Multifamily Selling and Servicing Guide, are granted to Fannie Mae-approved Lenders strictly for their own use in originating and selling multifamily Mortgage Loans to, and servicing multifamily Mortgage Loans for, Fannie Mae. Fannie Mae may revoke this limited permission by sending 60 days advance written notice to any or all Fannie Mae-approved Lenders.



## TABLE OF CONTENTS

---

Part II Chapter 1 Attributes and Characteristics .....	3
Section 101 Generally .....	3
Section 102 Property Ownership; Leasehold .....	4
Section 103 Ground Leased Properties .....	4
103.01 Generally .....	4
103.02 Ground Lease Rents .....	4
103.03 Ground Lease Estoppel Certificate .....	4
103.04 Ground Lease Review .....	5
Section 104 Minimum Occupancy .....	5
104.01 Residential Occupancy .....	5
104.02 Qualified Occupants .....	5
Section 105 Certificates of Occupancy .....	6
Section 106 Phased Properties .....	7
Section 107 Commercial Leases .....	8
107.01 Material Commercial Leases .....	8
107.01A Lease Review .....	8
107.01B Lease Approval .....	9
107.01C Lease Modifications .....	9
107.01D Tenant Estoppel Certificate .....	10
107.01E Subordination, Non-Disturbance and Attornment .....	10
107.02 Non-Material Commercial Leases .....	10
107.02A Tenant Estoppel Certificate; Lease Modification .....	10
107.02B Non-Material Commercial Lease Types .....	11
107.03 Short Term Rentals .....	14
Section 108 Property Management and Agreement .....	15
108.01 Property Management .....	15
108.02 Property Management Agreement .....	15
GLOSSARY .....	17



## Chapter 1 Attributes and Characteristics

### Section 101 Generally

---

#### Requirements

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

- contains at least 5 dwelling units;
- has suitable bathroom and cooking facilities located within each unit;
- is located in 1 of the 50 states of the United States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, or Guam;
- is located on a publicly dedicated, all-weather road, or is accessible by a satisfactory easement from this type of road;
- consists of either a single parcel or contiguous parcels that adjoin or are separated only by dedicated or private streets;
- has adequate water and sewer service, which may be delivered by a public utility or, where commercially acceptable for the market area, by a private system or utility;
- offers a suitable level of utility service (e.g., electrical, natural gas, plumbing, refuse removal, etc.) for the market area;
- either complies with all applicable statutes, rules, regulations, and housing and building codes, or is being appropriately remediated;
- does not contain any Modular Housing; and
- has access to police and emergency services.

When a Property consists of multiple parcels, these parcels must:

- be operating as a single project;
- be within the same submarket;
- not be separated by a major traffic artery; and
- make available to all tenants the amenities located on any parcel.

#### Guidance

You should also consider the following when a Property consists of multiple parcels:

- Rents at a parcel should not be lower because amenities are located on



another parcel.

- Vacancy levels at a parcel should not be higher because of the Property's configuration.

## Section 102 Property Ownership; Leasehold

---

### Requirements

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

## Section 103 Ground Leased Properties

---

### 103.01 Generally

#### Requirements

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

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

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

### 103.02 Ground Lease Rents

#### Requirements

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

### 103.03 Ground Lease Estoppel Certificate

#### Requirements

You must obtain a Ground Lessor Estoppel Certificate that:

- follows Modifications to Multifamily Loan and Security Agreement (Ground Lease Defaults) ([Form 6206](#)); and
- includes any provisions required by [Form 6479](#) that are not already



contained in the Ground Lease.

### 103.04 Ground Lease Review

#### Requirements

You must:

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

## Section 104 Minimum Occupancy

### 104.01 Residential Occupancy

#### Requirements

You must ensure that the Property meets the following minimum occupancy levels:

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

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

### 104.02 Qualified Occupants

#### Requirements

When calculating occupancy, you must only include tenants who

- physically occupy the unit, and
- are paying rent.

#### Guidance

You may include any tenant who:

- was under a standard lease for at least 6 months, then converted to a month-to-month lease when the lease expired; or
- is under a lease with a term of less than 6 months, if shorter-term leases



- are commonly accepted in the market area, and
- do not reflect weakness in the market.

You may include non-revenue producing units such as

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

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

## Section 105

### Certificates of Occupancy

---

#### Requirements

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

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

For all other Properties, you must:

- determine whether each unit had a certificate of occupancy at some point;
- attempt to obtain copies of all certificates of occupancy; and
- retain them in your Servicing File.

#### Guidance

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

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

- your physical inspection reveals any life safety issues;
- all units are accessible through normal access routes (and not, for example, through a former janitorial closet);



- the insurance excludes coverage of a casualty originating from a unit without a certificate of occupancy; and
- the Property is located in a market that exhibits low vacancies and barriers to entry.

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

## Section 106

### Phased Properties

---

#### Requirements

If the Property is a Phased Property, you must evaluate

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

#### Guidance

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

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

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



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

#### Requirements

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

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

- all Fannie Mae Mortgage Loans on each phase must be cross-defaulted and cross-collateralized; and
- the Mortgage Loan must have a Prepayment Premium Period End Date that is on or before the Prepayment Premium Period End Date of the other Mortgage Loans on the other phases.

#### Guidance

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

## Section 107 Commercial Leases

---

### 107.01 Material Commercial Leases

#### 107.01A Lease Review

#### Requirements

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

If Material Commercial Lease approval is required by the terms of [Part II, Chapter 1: Attributes and Characteristics, Section 107.01B: Lease Approval](#) you must:

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

#### Guidance





As you analyze the Material Commercial Lease, you should consider the following questions:

- Does each tenant have the ability to fulfill its financial and other performance obligations under the Material Commercial Lease?
- Are the insurance provisions of the Material Commercial Lease consistent with the insurance requirements in the applicable Loan Documents or otherwise prescribed by Fannie Mae?
- Is each tenant required to obtain the Lender's consent before making any assignment, sublease, subcontracting, or other transfer of the Material Commercial Lease?
- Does the tenant have early termination clauses and if so, what are the conditions under which the tenant can terminate? For example,
  - if there is a material casualty or condemnation, or
  - if the landlord cannot substantially restore the premises in a reasonable period of time following a casualty or condemnation.

#### 107.01B Lease Approval

##### Requirements

Material Commercial Lease Type	
Lease with Property Assessed Clean Energy (PACE) Financing	You must not approve any Material Commercial Lease that includes PACE financing.
Other Material Commercial Leases	You must only approve other Material Commercial Leases if they comply with <a href="#">Part II, Chapter 1: Attributes and Characteristics, Section 107: Commercial Leases</a> .

##### Guidance

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

#### 107.01C Lease Modifications

##### Requirements



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

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

If the answer to any of these questions is “yes”, then you must:

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

#### **107.01D** Tenant Estoppel Certificate

##### Requirements

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

#### **107.01E** Subordination, Non-Disturbance and Attornment

##### Requirements

You must:

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

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

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

#### **107.02** Non-Material Commercial Leases

##### **107.02A** Tenant Estoppel Certificate; Lease Modification



### Requirements

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

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

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

## **107.02B** Non-Material Commercial Lease Types

### Requirements

Non-Material Commercial Lease Type	
Telecommunications and Cell Tower Leases	<p>You must review any telecommunications and cell tower lease to ensure that it does not:</p> <ul style="list-style-type: none"><li>• comprise more than 5% of the Property's Effective Gross Income;</li><li>• negatively impact the value, visibility, livability, or marketability of the Property;</li><li>• impose an undue financial or operating burden on the Property or the Borrower;</li><li>• obligate the Borrower to rebuild any Improvements at the Property following a casualty or condemnation;</li><li>• have a lease term (including extension options) in excess of 25 years;</li><li>• contain a purchase option; or</li><li>• convey any right to the tenant other than simple lessee rights (e.g., a perpetual easement, a purported sale of a portion of the Improvements, unjustified exclusivity, etc.).</li></ul>



### Non-Material Commercial Lease Type

Communications Service Agreement

You do not need to subordinate the service agreement to the Lien of the Security Instrument if:

- the Borrower certifies to you that neither the Borrower nor any Key Principal or Principal is an Affiliate of the communications service provider; and
- the lease does not contain provisions for the Borrower to assume liabilities and risks as landlord that would not be acceptable for you (as lender under the Mortgage Loan) in the context of a Foreclosure Event.

If a communications service agreement is accompanied by a lease or easement, then the lease or easement must end automatically when the service agreement expires, unless the service agreement is subordinated to the Lien of the Security Instrument.



Non-Material Commercial Lease Type	
Mineral Rights; Oil and Natural Gas Leases	<p>You must review each lease of mineral rights or rights relating to subsurface oil and natural gas to ensure that it does not:</p> <ul style="list-style-type: none"><li>• comprise more than 5% of the Property's Effective Gross Income;</li><li>• grant surface entry for any purpose (e.g., pipes, access across, or storage on the Property);</li><li>• grant subsurface rights within 250 feet below the surface of the Property, or within 600 feet from any Property boundary line;</li><li>• have a material adverse effect on public health and safety, air quality or noise levels, or on the marketability or occupancy of the Property;</li><li>• permit oil or gas well activities that could have a negative effect on access, visibility, or storm water drainage at the Property;</li><li>• have a negative effect on the zoning or allowable density of the Property;</li><li>• facilitate drilling, storage, or processing of oil or gas on the Property or any adjacent property; or</li><li>• fail to require the lessee to indemnify and hold harmless the Borrower, as lessor, for any damage to the Property or any other damage or liability caused directly or indirectly as a result of the lease activities.</li></ul>
Laundry Lease	<p>You do not need to subordinate the lease to the Lien of the Security Instrument if you confirm that the lease:</p> <ul style="list-style-type: none"><li>• is not with an Affiliate of the Borrower or any Key Principal or Principal;</li><li>• has market terms;</li><li>• contains an acceptable termination for cause provision; and</li><li>• meets recognized industry standards.</li></ul>



Non-Material Commercial Lease Type	
Equipment or Related Maintenance Services Lease	You must ensure that the lease: <ul style="list-style-type: none"><li>• is subordinate to the Security Instrument;</li><li>• contains an acceptable termination for cause provision; and</li><li>• meets recognized industry standards.</li></ul>

➔ Guidance

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

**107.03** Short Term Rentals

Requirements

You must ensure that:

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

You must include the following information in your underwriting analysis:

- a description of the STR arrangement;
- length of time the STR has been in place;
- Borrower's action plan for handling liability issues for
  - STR tenants at the Property, and
  - safety concerns for non-STR tenants;
- Borrower's strategy for implementing STR;
- whether the STR units are furnished or unfurnished;



- confirmation that the STR is legally permissible and in compliance with applicable laws and zoning;
- confirmation that the Borrower's or master tenant's insurance covers any STR; and
- confirmation that the Property is residential in nature (i.e., not operated as a hotel or other single room occupancy arrangement).

### ➔ Guidance

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

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

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

## Section 108 Property Management and Agreement

### 108.01 Property Management

#### ☑ Requirements

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

### ➔ Guidance

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

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

### 108.02 Property Management Agreement

#### ☑ Requirements

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



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

#### ➔ Guidance

You should ensure that the Property management agreement clearly states

- the responsibilities of the Property manager, and
- the amount of the management fee (or describes the method for determining the fee).





## Glossary

### A

#### Affiliate

When referring to an affiliate of a Lender, any other Person or entity that Controls, is Controlled by, or is under common Control with, the Lender.

When referring to an affiliate of a Borrower or Key Principal:

- any Person that owns any direct ownership interest in Borrower or Key Principal;
- any Person that indirectly owns, with the power to vote, 20% or more of the ownership interests in Borrower or Key Principal;
- any Person Controlled by, under common Control with, or which Controls, Borrower or Key Principal;
- any entity in which Borrower or Key Principal directly or indirectly owns, with the power to vote, 20% or more of the ownership interests in such entity; or
- any other individual that is related (to the third degree of consanguinity) by blood or marriage to Borrower or Key Principal.

#### **Synonyms**

- Affiliates

### B

#### Borrower

Person who is the obligor under the Note.

#### **Synonyms**

- Borrowers
- Borrower's

### C



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

**Synonyms**

- Committed
- Commitments

## **E**

**Effective Gross Income** On an annual basis or any specified period, the total of Net Rental Income plus other income per [Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis](#) and the applicable products and features in Part III.

**Synonyms**

- EGI

## **F**

**Foreclosure Event** Any of the following:

- Foreclosure under the Security Instrument;
- any other exercise by the Lender of rights and remedies (whether under the Security Instrument or under applicable law, including Insolvency Laws) as holder of the Mortgage Loan and/or the Security Instrument, as a result of which the Lender (or its designee or nominee) or a third-party purchaser becomes owner of the Property;
- delivery by the Borrower to the Lender (or its designee or nominee) of a deed or other conveyance of the Borrower's interest in the Property in lieu of any of the foregoing; or
- in Louisiana, any dation en paiement.



Form 4660

Multifamily Underwriting Standards identifying Pre-Review Mortgage Loans and containing the minimum underwriting requirements (e.g., debt service coverage ratio, loan to value ratio, interest only, underwriting floors, etc.) for all Mortgage Loans.

**Synonyms**

- Multifamily Underwriting Standards

**G**

Ground Lease

Contract for the rental of land, usually on a long term basis.

**I**

Improvements

Buildings, structures, improvements, and alterations, including the multifamily housing dwellings, now constructed or hereafter constructed or placed on the land upon which the Property is located, together with all fixtures (as defined in the Uniform Commercial Code).

**K**

Key Principal

Person(s) who control and/or manage the Borrower or the Property, are critical to the successful operation and management of the Borrower and the Property, and who may be required to provide a Guaranty.

**Synonyms**

- Key Principals

**L**

Lease

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

**Synonyms**

- Leases



**Leasehold** Property held under a long-term lease or Ground Lease.

**Lender** Person approved by Fannie Mae to sell or service Mortgage Loans.

**Synonyms**

- Lenders
- Lender's

**Lien** Lien, mortgage, bond interest, pledge, security interest, charge, or encumbrance of any kind.

**Synonyms**

- Liens

**Loan Documents** All documents evidencing, securing, or guaranteeing the debt obligation executed for a Mortgage Loan and approved by Fannie Mae.

**Synonyms**

- Loan Document
- Mortgage Loan Document
- Mortgage Loan Documents

## **M**

**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



MBS

Mortgage-Backed Security

Modular Housing

Property on which the Improvements consist of factory-built housing not built on a permanent chassis, such as modular, prefabricated, panelized, or sectional housing and is not considered manufactured housing.

**Synonyms**

- Cardinal

Mortgage Loan

Mortgage debt obligation evidenced, or when made will be evidenced, by the Loan Documents or a mortgage debt obligation with a Fannie Mae credit enhancement.

**Synonyms**

- Mortgage Loans

## P

Prepayment Premium  
Period End Date

Last date on which a Borrower owes a Prepayment Premium for a voluntary Mortgage Loan prepayment.

Principal

Person who owns or controls specified interests in the Borrower per [Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 303: Key Principals, Principals, and Guarantors](#).

**Synonyms**

- Principals

Property

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

**Synonyms**

- Properties
- Property's



## 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.
Servicing File	File for each Mortgage Loan serviced by the Lender.
	<b>Synonyms</b> <ul style="list-style-type: none"><li>• Servicing Files</li></ul>
SNDA	Subordination, Non-Disturbance and Attornment Agreement