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**Part V**  Servicing and Asset Management

**Chapter 1**  Servicing

**Section 101**  Generally

### 101.01  Relationship

- **Requirements**

  You must service all Portfolio Mortgage Loans on Fannie Mae’s behalf per the Guide.

### 101.02  Standard

- **Requirements**

  You must:

  - always protect Fannie Mae’s interest in the Mortgage Loan;
  - collect all amounts due from the Borrower for Fannie Mae and any MBS Investor;
  - service each Mortgage Loan per these documents until your obligations end in the following order of priority:

    1. Loan Documents;
    2. Disclosure Documents;
    3. Lender Contract;
    4. Guide; and
    5. commercially sound servicing practices and business judgment exercised by prudent institutional servicers for comparable mortgage loans in the Property’s jurisdiction; and

  - hold any retained subservicer to this standard.

### 101.03  Servicing File

- **Requirements**

  You must:
 maintain a separate Servicing File for each Mortgage Loan; and
permit Fannie Mae to periodically examine your Servicing Files.

Operating Procedures

The Servicing File must:

1. Per the Multifamily Servicing File Content Requirements (Form 4800),
   include a copy of all
   - Mortgage Loan origination documents,
   - underwriting documents,
   - Loan Documents, and
   - servicing documents.

2. Fully document your actions for each Mortgage Loan.
3. Be in paper or electronic imaged form.
4. Comply with all record retention requirements per the Program Rules.

101.04 Loan Document Compliance

- Requirements

For each Mortgage Loan, you must:

- monitor the Borrower’s compliance with all Loan Document terms and conditions; and
- appropriately address noncompliance.

Section 102 Uniform Commercial Code (UCC) Financing Statements

102.01 Filing Documents

- Requirements

You must maintain Fannie Mae's first Lien security interest in the Personal Property by filing all necessary UCC financing statements and continuations by the earlier of:

- the date any outstanding filing lapses; or
- any applicable jurisdiction filing deadline.
Guidance

For all Mortgage Loans, you should effectively monitor
- UCC financing statements, and
- continuation filing deadlines.

Operating Procedures

Each Mortgage Loan Servicing File must include a file-stamped copy of the
UCC financing statements filed for the Personal Property, including
- initial filings,
- continuations,
- assignments, and
- other amendments.

102.02  UCC Continuations, Amendments, and Terminations

Operating Procedures

You are authorized and required to file:

1. All UCC continuation statements in all appropriate jurisdictions.
2. Any UCC financing statement amendments to correct any scrivener’s error.

Unless Fannie Mae granted you a Limited Power of Attorney, you are not
authorized to
- sign or file any UCC financing statement amendment other than for a
  scrivener’s error, or
- terminate any UCC financing statement.

Guidance

See Part V, Chapter 4: Asset Management: Loan Document Administration, Section 403: Execution of Documents by Servicer – Limited Power of Attorney for more information.

Section 103  Letters of Credit
### 103.01 Servicing File

#### Requirements

You must immediately deliver to Fannie Mae:

- the original Letter of Credit; and
- any new, replacement, or amended Letter of Credit delivered to you.

#### Operating Procedures

In your Servicing File, you must keep a copy of any

- Letter of Credit, and
- the associated Achievement Agreement or other Collateral Agreement.

---

### 103.02 Certification

#### Operating Procedure

With any new or replacement Letter of Credit, you must

- submit a Borrower Letter of Credit Certification (Form 4664.B), and
- confirm the Letter of Credit complies with Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit.

---

### 103.03 Monitoring Expiration Dates

#### Operating Procedures

You must:

- effectively monitor each Letter of Credit's expiration date; and
- ensure Fannie Mae receives an acceptable renewal or replacement Letter of Credit
  
  - by the deadline per the Achievement Agreement or other Collateral Agreement, or
  
  - if no deadline is specified, at least 5 Business Days before the Letter of Credit expires.

If you do not provide a renewal or replacement Letter of Credit, Fannie Mae will present a sight draft against the expiring Letter of Credit.
103.04 Replacement Letter of Credit

**Operating Procedures**

You must ensure any replacement Letter of Credit has an expiration date at least 30 days after the applicable Achievement Agreement or other Collateral Agreement expiration date.

103.05 Verifying Issuer Ratings

103.05A Monitoring

**Operating Procedures**

While each Letter of Credit is outstanding, you must:

- comply with Part I, Chapter 2: Mortgage Loan, Section 204.03: Verifying Issuer Ratings; and
- document each rating verification in your Servicing File.

103.05B Rating Noncompliance

**Operating Procedures**

<table>
<thead>
<tr>
<th>If the rating of the financial institution issuing or confirming the Letter of Credit does not comply with...</th>
<th>You must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part I, Chapter 2: Mortgage Loan, Section 204.02: Issuers and Ratings</td>
<td>Promptly notify Multifamily Business Operations even if the Achievement Agreement or other Collateral Agreement...</td>
</tr>
</tbody>
</table>

• provides different acceptable issuer rating criteria, or
• does not authorize Fannie Mae to act if the rating falls.
<table>
<thead>
<tr>
<th><strong>If the rating of the financial institution issuing or confirming the Letter of Credit does not comply with...</strong></th>
<th><strong>You must...</strong></th>
</tr>
</thead>
</table>
| Rating criterial in the Achievement Agreement or other Collateral Agreement | • Promptly notify Multifamily Business Operations.  
• Require the Borrower to provide a replacement or confirming Letter of Credit from an acceptably rated institution by the:  
  - replacement deadline per the Achievement Agreement or Collateral Agreement; or  
  - earlier of  
    • 30 days after notifying the Borrower, or  
    • 5 Business Days before the Letter of Credit expires. |

**103.06 Managing Draws and Releases**

**103.06A Letter of Credit Draws**

**Requirements**

You must promptly notify Multifamily Asset Management and Multifamily Business Operations if a Letter of Credit draw is appropriate.

**103.06B Releasing/Reducing Letters of Credit or Other Collateral**

**Operating Procedures**

Unless a Mortgage Loan is being fully repaid, you must:

- assess each Borrower request to fully release or partially reduce a Letter of Credit or other collateral;
- submit your recommendation to Multifamily Asset Management; and
- notify the Borrower when each request is approved or denied.

**Section 104 Bond Transactions and Credit Enhancement Mortgage Loans**
104.01A Payments

Operating Procedures

Collect all of the following from the Borrower:

- reimbursement of all amounts Fannie Mae paid or is due per any:
  - Credit Enhancement Instrument or MBS for Bonds;
  - Loan Documents or Reimbursement Agreement;
  - Bond Collateral Agreement; and
  - Interest Rate Cap Agreement or other interest rate hedge;

- any Facility Fee and/or Activity Fee for an unreimbursed Liquidity Advance per the Reimbursement Agreement;

- all amounts required to replenish the PRF;

- any Prepayment Premium or other Termination Fee;

- any other fees, expenses, or additional costs due per any
  - Credit Enhancement Instrument or MBS for Bonds,
  - Security Instrument,
  - Reimbursement Agreement, or
  - other Loan Document; and

- any other amounts due Fannie Mae or the Bond Trustee.

<table>
<thead>
<tr>
<th>Steps</th>
<th>Activity...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calculate the Amount Due</td>
<td>After receiving the information to calculate the amount due, you must</td>
</tr>
<tr>
<td></td>
<td>• immediately invoice the Borrower, and</td>
</tr>
<tr>
<td></td>
<td>• remit the funds to the appropriate parties per the Reimbursement Agreement or Loan Documents.</td>
</tr>
</tbody>
</table>
### Steps

<table>
<thead>
<tr>
<th>Advance Funds Notification</th>
<th>Activity...</th>
</tr>
</thead>
</table>
| Fannie Mae will notify you of the amount disbursed on or after each disbursement date for any: | - Credit Enhancement Instrument or MBS for Bonds;  
- Loan Document; or  
- other Bond Collateral Agreement. |

<table>
<thead>
<tr>
<th>Payment Timing</th>
<th>Activity...</th>
</tr>
</thead>
</table>
| You must remit all Borrower payments per the Loan Documents or Fannie Mae's instructions. | If you do not pay Fannie Mae or the Bond Trustee until the next Business Day, you must  
- invest the funds overnight, and  
- remit all investment earnings to Fannie Mae or the Bond Trustee with the payment. |
| For Borrower payments received after 4:00 p.m. Eastern Time, you must use your best efforts to invest the funds. |

## 104.01B  Principal Reserve Fund

### Requirements

You must ensure no PRF withdrawal occurs without Fannie Mae's approval.

### Operating Procedures

For each Credit Enhancement Mortgage Loan, you must:

- Review the Bond Trustee's reported PRF balance.
- Collect from the Borrower any amount withdrawn from the PRF, including withdrawals reimbursing Fannie Mae for amounts it paid per the  
- Credit Enhancement Instrument or MBS for Bonds, or  
- Loan Documents.
104.02 Cash Collateral Agreements

☑ Requirements

You must:

■ ensure any control agreement perfecting Fannie Mae’s security interest in pledged collateral remains in full force and effect; and
■ not invest, apply, or release any collateral under a Cash Collateral or other Security Agreement.

104.03 UCC Filings

☑ Operating Procedures

For UCC filings per Loan Documents or Bond documents, you must:

■ instruct each Bond Trustee to file UCC continuation statements at least 90 days before the filing expires; and
■ confirm the filing occurred before expiration.

104.04 Remarketing Agent Changes

☑ Requirements

For Bond transactions that remarket on scheduled mandatory tender and remarketing dates where Fannie Mae provides Bond liquidity support, you must ensure any new Remarketing Agent complies with Part III, Chapter 19: Bond Transactions and Credit Enhancement Mortgage Loans, Section 1903.02: Remarketing Agent.
Chapter 2  Reporting and Remitting

Section 201  Generally

This Chapter:

- outlines the accounting policies and procedures that apply to Mortgage Loans;
- applies to both Cash Mortgage Loans and Securitized Mortgage Loans, except where noted that a particular procedure is applicable only to one or the other execution;
- describes the methods for accounting for scheduled monthly payments, payment shortages, additional principal payments, repayments of advances, and payments in full; and
- describes Fannie Mae's remittance requirements, the method for remitting, and the format for reporting Mortgage Loan information on all transactions.

Fannie Mae purchases Mortgage Loans for cash or in exchange for the issuance of a Security. Fannie Mae reserves the right to later place any of the Mortgage Loans purchased for cash into a Security (e.g., PFP MBS). If Fannie Mae securitizes a Mortgage Loan, the Servicer may be required to make certain changes to its reporting and remitting procedures. If such an event occurs and changes to a Servicer's reporting and remitting procedures will be required, Fannie Mae will notify the Servicer in writing.

Fannie Mae reserves the right to modify its Remittance Accounting system and forms to accommodate future changes to its overall systems applicable to Mortgage Loans.

Section 202  Collection, Tracking and Reporting of Monthly P&I Payments and T&I Amounts

The Servicer is responsible for collecting monthly P&I payments from the Borrower in accordance with the terms of the Note executed by the Borrower. All P&I payments and T&I amounts collected by the Servicer in connection with Mortgage Loans must be deposited in the applicable P&I and T&I Custodial Accounts maintained in accordance with the requirements of Part V, Chapter 3: Custodial Accounts.

The Servicer must track and account separately for all P&I payment activity relating to each Mortgage Loan. The Servicer must report to Fannie Mae on the P&I payment activity relating to each Mortgage Loan as provided in this Chapter.

Section 203  Reporting Loan Activity and Security Balance
**203.01 Use of Fannie Mae eServicing System**

The Servicer must use Fannie Mae’s eServicing System to report Mortgage Loan level information on all Cash Mortgage Loans and Securitized Mortgage Loans. The Servicer must register to use the eServicing System prior to use. Information regarding registering for the eServicing System can be found on https://multifamily.fanniemae.com/applications-technology/eservicing. The Servicer must segregate its Cash Mortgage Loan servicing portfolio from its Securitized Mortgage Loan servicing portfolio for reporting purposes.

**203.02 Reporting Specific Transactions**

All reportable transactions will fall into one or more categories. Some transactions update the status of a Mortgage Loan or summarize collection activity, while others update the information in Fannie Mae’s records (e.g., Property addresses, Servicer Mortgage Loan identification numbers, Mortgage Loan terms, subservicing status, etc.).

**203.03 Monthly Activity Reporting**

**203.03A When to Begin Reporting**

The Servicer must use the eServicing System to report its monthly Mortgage Loan activity to Fannie Mae following the end of each Reporting Period, commencing with the month following the:

- date Fannie Mae acquired the Cash Mortgage Loan or PFP Mortgage Loan; or
- Issue Date for Securitized Mortgage Loans (other than PFP MBS).

**203.03B Cutoff Dates for Loan Activity Reporting**

The following are the cutoff dates for activity reporting on Mortgage Loans:

<table>
<thead>
<tr>
<th>Monthly Activity Cutoff Date</th>
<th>Monthly Activity Report Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Servicer may establish as its cutoff date any day from the 25th of the month to the last day of the month.</td>
<td>Not later than the second Business Day of the month following the cutoff date for the Reporting Period.</td>
</tr>
</tbody>
</table>

**203.03C Cash Mortgage Loan – Reporting Remittance Amount**

On the last Business Day before the designated Remittance Date, the Servicer must electronically report the remittance amount using the Cash
Remittance System that is to be drafted by Fannie Mae on the Remittance Date. The Servicer may enter drafting information into the Cash Remittance System at any time until 4:00 p.m. Eastern Time, which is the designated cutoff time to enable Fannie Mae to draft the remittances on the next Business Day.

The Servicer may change the information for individual drafts at any time prior to the 4:00 p.m. Eastern Time cutoff time (and the Servicer’s transmission of the information to Fannie Mae). After the remittance information is electronically transmitted to Fannie Mae, the Cash Remittance System will generate a report for the Servicer to confirm Fannie Mae’s receipt of its drafting instructions. Fannie Mae will then draft the related funds on the following Business Day using an automated clearing house. The Servicer will be able to print reports of its drafting activity to facilitate recordkeeping and reconciliation of account information.

### 203.04 Monthly Securitized Mortgage Loan Security Balance Reporting

#### 203.04A Reporting Security Balances

For each Security Pool serviced by the Servicer, the Servicer must submit a monthly Security Balance report that references:

- the Security Balance; and
- the Security Pool number.

#### 203.04B Same Month Pooling – Security Balance for First Reporting Cycle

For Same Month Pooling Mortgage Loans, the Borrower will have made no payment as the monthly debt service payment will not yet have come due. Because the Servicer’s Security Balance report for the month following the Issue Date of the Security Pool under the Same Month Pooling Delivery option will not include an amount for principal curtailment for amortizing Mortgage Loans, the Servicer must report the Issue Date Principal Balance of the Mortgage Loan as the first reporting cycle Security Balance. As long as the Servicer reports the Issue Date Principal Balance of the Securitized Mortgage Loan in its first Security Balance report, there will be no impact on the Pool-to-Security balance reconciliation for that month.

#### 203.04C Security Balances Due by Second Business Day

The Servicer must have transmitted all of its Security Balances (or corrections to balances reported in error) to Fannie Mae by 5:00 p.m. Eastern Time on the second Business Day of each month following the Reporting Period. If the Servicer anticipates a problem in meeting this reporting deadline or has a transmission problem that will result in late reporting, the Servicer must contact its Fannie Mae Representative.
203.04D  Failure to Meet Reporting Deadline

If the Servicer fails to meet Fannie Mae’s reporting deadline, Fannie Mae may estimate the Servicer’s Security Balances so Fannie Mae can pass-through payments to Investors and publish Security Balances in a timely manner. When Fannie Mae does this, Fannie Mae’s estimate will be both the published Security Balance, and the beginning Security Balance used for the next month’s Security Balance report. Fannie Mae will send the Servicer written notification of any published estimated Security Balance within 10 days after publication by Fannie Mae.

203.05  Due Dates for Reports

The exact due date of the Servicer’s submission of its reports depends on the type of transaction being reported.

203.05A  Removal Transactions

The Servicer must report removal activity (e.g., payoff, repurchase, liquidated-held for sale, and liquidated third-party sale/condemnation) by the second Business Day of the month following the cutoff date for the Reporting Period in which the activity occurred. The Servicer may correct any removal activity reporting error by resubmitting the corrected information in time to reach Fannie Mae by the second Business Day of the month following the Reporting Period. If the Servicer is unable to correct the error, the Servicer must notify its Fannie Mae Representative about the error.

203.05B  All Other Transactions

The Servicer must make sure that all other transactions (which are the transactions that comprise the bulk of its reports) are transmitted in sufficient time for receipt by Fannie Mae by the second Business Day of the month following the cutoff date for the Reporting Period.

203.06  Mortgage Loan Activity Record

The Loan Activity Record is used to provide Mortgage Loan-level detail of amounts due to Fannie Mae or the Investor for each Mortgage Loan on the Servicer’s trial balance.

203.06A  Payment Collection

Payment collection relates to the receipt and application of the monthly payment. The information that must be reported includes:

- actual last paid installment ("LPI") date;
- actual UPB; and
- remittance amount (distributed between P&I).

Under the Same Month Pooling option, the Servicer must not report a principal distribution amount for the first reporting cycle following the Issue Date of the Security Pool because no payment will have come due from the Borrower. For the first reporting cycle, the actual UPB of the Mortgage Loan will equal the Issue Date principal balance, as no principal payment will be subtracted from the Security Balance or passed through to the Investor.

203.06B Fee Collection

Fee collection relates to any special fees that were collected from the Borrower during the Reporting Period.

203.06C Mortgage Loan Status

Mortgage Loan status relates to special actions that have occurred (e.g., a payoff or a repurchase). An action code and an action date (specifying when the reported action occurred or will occur) must be reported. The User Manual for the eServicing System provides detailed information regarding action codes and action dates.

203.07 Reports Generated by Fannie Mae

203.07A MBS Mortgage Loan Reports

On approximately the 10th of the month, the eServicing System provides P&I Draft Amount reports that the Servicer may download or view to verify the amount that will be drafted on the 18th of the month. The reports also include, if applicable, Prepayment Premium amounts that must be passed through to Fannie Mae (which include portions due to Fannie Mae and to the investor).

203.07B Cash Mortgage Loan and MBS Mortgage Loan Reports

After Fannie Mae processes the Servicer’s information in the eServicing System, reports are produced to highlight the reported activity. These reports are designed to assist the Servicer in reconciling the monthly information generated from the eServicing System with its internal records. These reports are available to the Servicer after the 22nd day of each month.

203.08 Monthly MBS Mortgage Loan Reconciliations - Pool-to-Security Balance Reconciliations (Not Applicable to PFP MBS)

203.08A Reconciliation Required
At the end of each Reporting Period, the Servicer must reconcile the actual ending Mortgage Loan balance for the Mortgage Loan in any given Security Pool to the ending Security Balance for that Security Pool. To perform this reconciliation, the Lender must use the following calculation:

<table>
<thead>
<tr>
<th>Function</th>
<th>Ending Principal Balance for the Mortgage Loan in Security Pool (from current month)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PLUS</td>
<td>Prepaid Principal (as of current month)</td>
</tr>
<tr>
<td>MINUS</td>
<td>Delinquent Principal (as of current month)</td>
</tr>
<tr>
<td>MINUS</td>
<td>Scheduled Principal (as of current month)</td>
</tr>
<tr>
<td>PLUS</td>
<td>Principal Portion of Last Installment for Liquidated Mortgage Loan (as of current month)</td>
</tr>
</tbody>
</table>

**Adjusted Principal Balance for Security Pool**

MINUS Ending Security Balance for Reporting Period

EQUALS Difference

**203.08B Rounding Adjustment**

Because the total amount of the Mortgage Loan that is issued for a Security Pool is rounded down to the next lowest whole dollar amount of the actual “Issue Date Principal Balance of the Mortgage Loan”, the Security Balance will be smaller than the actual UPB of the Mortgage Loan. The difference will never be greater than $0.99 for a single Security Pool. The Servicer must adjust for this difference in the first monthly accounting report it submits after the Issue Date of the Security, classifying it as an “unscheduled” principal adjustment.

**203.08C Required Annual Adjustment to Correct Principal Balance vs. Security Balance Difference**

Other differences may arise in the reconciliation between the UPB of the Mortgage Loan in a Security Pool and the outstanding Security Balance. These differences cannot exceed more than $0.25 for any Mortgage Loan in the Security Pool. At least once a year, the Servicer must make an adjustment to correct any differences.

1. If Security Balance is Greater than UPB

If the Security Balance is higher than the UPB of the Mortgage Loan, the Servicer must immediately deposit the funds in the “scheduled/scheduled” P&I Custodial Account for Security Pools so that the funds can be passed through to Fannie Mae (as an “unscheduled” principal collection) with the Servicer’s next monthly remittance.
2. If Security Balance is Lower than UPB

If the Security Balance is lower than the UPB of the Mortgage Loan, the Servicer may adjust a subsequent pass-through amount that includes an “unscheduled” principal collection to correct for this difference.

203.08D Pool-to-Security Reconciliation Certification

The eServicing System produces a Pool-to-Security Reconciliation on a monthly basis to assist Servicers with review. Servicers are required to review and certify any pool-to-security difference each month by month end. Differences occur when the MBS pool security balance does not match the sum of the scheduled UPB of the Mortgage Loan. Fannie Mae calculates pool-to-security differences after monthly Mortgage Loan and Security reporting is complete. For each pool with a difference, the Servicer must review the deficiency, research the difference, and determine the appropriate remedy. The Servicer’s certification includes the identification and selection of a deficiency reason, and a statement of how it should be resolved.

Section 204 Calculation of Interest Due

204.01 Generally

Generally the Borrower's monthly payment consists of P&I and deposits for insurance, taxes, replacement reserves and replacement hedges or some combination of such items. In some instances, the payment may include additional funds to be applied toward the UPB or to repay funds advanced by the Servicer. The Servicer must account for each portion of the Borrower's monthly payment in the Servicer's records. The Servicer must track both actual and scheduled Mortgage Loan balances (a.k.a., Security Pool and Security balances) and reconcile any outstanding difference (e.g., the Servicer advances for insufficient Borrower payments).

204.02 Calculating Interest Due

The interest calculation method is generally specified in the Loan Documents. Servicers are required to calculate interest due for each Mortgage Loan as required by the Loan Documents. If the Loan Documents do not contain any information regarding the interest calculation method, then Servicers should assume a 30/360 accrual method.

204.02A Actual/360 Interest Calculation Method

Interest will accrue based upon the actual number of days in a calendar month and a 360-day year.

204.02B 30/360 Interest Calculation Method
Interest will accrue based upon a 30-day month and a 360-day year.

Section 205  ARM Mortgage Loan Interest Rate and Monthly Payment Changes

205.01  Adjustable Rate Mortgage Loan Interest Rate Changes and Required Monthly Payments

The Servicer must enforce each Mortgage Loan in accordance with the terms of the executed Loan Documents. This includes making periodic interest rate and payment adjustments in connection with any type of Adjustable Rate Mortgage Loans. The Servicer must change the Mortgage Loan interest rate and monthly payments to the fullest extent permitted or required, maintaining at all times the Mortgage Loan margin specified in the executed ARM Note. Factors used to determine the new interest rate for ARM Mortgage Loans include:

- the Index on which the rate is to be based;
- the “look back” period;
- any applicable interest rate change limitations; and
- the Mortgage Loan margin.

If the Servicer fails to make a timely interest rate or payment adjustment, the Servicer must use its own funds to satisfy any shortage.

205.01A  The Adjustable Rate Mortgage Loan Index

The Servicer must determine the Index on which the rate is to be based as specified in the Loan Documents. To assist the Servicer in monitoring indexes, Fannie Mae offers an ARM Index service through its website on https://multifamily.fanniemae.com. The Servicer must establish procedures to monitor the Index to assure that the Servicer uses the latest available Index to determine an interest rate change.

205.01B  Determining the New Monthly Payment

Except for Fannie Mae Structured ARM Loans, a Required Monthly Payment change occurs at established intervals and corresponds to any change in the interest rate. The new monthly payment is calculated by determining the amount required to repay the UPB of the Mortgage Loan in substantially equal payments over the remaining amortization period of the Mortgage Loan at the interest rate in effect following the latest interest rate change utilizing the applicable Interest Calculation Method. If the Mortgage Loan is an interest-only Mortgage Loan, the new monthly payment is the monthly interest payment at the interest rate in effect following the latest
interest rate change utilizing the applicable Interest Calculation Method. The new Required Monthly Payment becomes effective on the first day of the month following the month in which the interest Rate Change Date occurs.

### 205.02 Monthly Reporting for ARM Payment/Rate Changes

Prior to the effective date of the Monthly Payment/Rate Change the Servicer must submit a Monthly Payment/Rate Change via the eServicing System. For assistance with rate and/or payment changes, the Servicer must contact its Fannie Mae Representative.

In order for Fannie Mae to account for ARM Mortgage Loans on its books, Fannie Mae must receive the Monthly Payment/Rate Change on a timely basis.

### 205.03 Structured ARM Loans

Structured ARM Mortgage Loans using ARM Plan Numbers 03487 and 03488 are subject to the same reporting and remittance requirements as other ARM Mortgage Loans except for the differences described in this section.

The interest rate for Structured ARM Loans will be determined based on either the 1-month or 3-month LIBOR Index using a 1-Business Day look-back period in accordance with the requirements of the applicable Structured ARM Plan Number. The applicable interest rate will be determined by adding the Mortgage Loan margin specified in the Note to the applicable Index value. No periodic or lifetime interest rate limitations apply to this computation.

Rate Changes for 1-month LIBOR Index Structured ARM Mortgage Loans (Plan No. 03488) will occur on the First Payment Date and the first day of each month thereafter until maturity as specified in the Note. Rate Changes for 3-month LIBOR Index Structured ARM Mortgage Loans (Plan No. 03487) will occur on the first day of the month which is the second month following the First Payment Date and the first day of every third month thereafter until maturity as specified in the Note.

The First Payment Date will be the first day of the second full calendar month following the Mortgage Loan closing date as specified in the Note or, if the closing date is the first day of the month, the First Payment Date will be the first day of the month following the closing date. For example, if the Mortgage Loan closes on June 15th, the First Payment Date is on August 1st and if the Mortgage Loan closes on June 1st, the First Payment Date is on July 1st.

A Required Monthly Payment change occurs at established intervals and corresponds to any change in the interest rate, the number of days in an accrual period, or the UPB of the Mortgage Loan.

If the Mortgage Loan amortizes, the Required Monthly Payment is
the sum of the monthly interest installment and the monthly principal installment. The monthly interest installment is calculated by multiplying the UPB of the Mortgage Loan by the interest rate in effect following the latest interest rate change utilizing an Actual/360 interest accrual method. Equal monthly principal installments will be made over the term of the Mortgage Loan in the amount set forth in the Structured ARM Note.

If the Structured ARM Loan is an interest-only Mortgage Loan, the Required Monthly Payment is the monthly interest payment which is calculated by multiplying the UPB of the Mortgage Loan by the interest rate in effect following the latest interest rate change utilizing an Actual/360 interest accrual method as set forth in the Structured ARM Note.

For 1-month LIBOR Index Structured ARM Mortgage Loans (Plan No. 03488), the new Required Monthly Payment becomes effective on the first day of the month following the month in which the Rate Change Date occurs.

For 3-month LIBOR Index Structured ARM Mortgage Loans (Plan No. 03487), a new Required Monthly Payment becomes effective on the first day of each month following any change in the interest rate or if the number of days in an accrual period is different from the prior month, as set forth in the Structured ARM Note.

**Section 206 Application of Monthly Payments**

<table>
<thead>
<tr>
<th>Fannie Mae Form Loan Documents</th>
</tr>
</thead>
</table>

For Mortgage Loans originated using Fannie Mae published Note forms, the Servicer must apply monthly payments received from the Borrower as follows:

<table>
<thead>
<tr>
<th>Loan Document Version</th>
<th>Application of Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-1988 Form Loan Documents using Rider to Multifamily Instrument (Form 4059, 4/88)</td>
<td>Servicer must apply monthly payments received from the Borrower in the following order:</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td><strong>Servicer must apply monthly payments received from the Borrower in the following order:</strong></td>
<td>• first, to impositions due under Uniform Covenant 2 of the Security Agreement, including deposits for T&amp;I, and deposits due under a Collateral Agreement (e.g., Replacement Reserve);</td>
</tr>
<tr>
<td></td>
<td>• then, to interest at the Gross Note Rate;</td>
</tr>
<tr>
<td></td>
<td>• then, to principal;</td>
</tr>
<tr>
<td></td>
<td>• then, to interest on any Servicing and Delinquency Advances made by the Servicer;</td>
</tr>
<tr>
<td></td>
<td>• then, to principal on any Servicing and Delinquency Advances made by the Servicer;</td>
</tr>
<tr>
<td></td>
<td>• then, to late charges and other funds due the Servicer; and</td>
</tr>
<tr>
<td></td>
<td>• finally, to interest at the default interest rate.</td>
</tr>
<tr>
<td><strong>The interest portion of the fixed installment must be determined by computing 30 days interest on the outstanding principal balance as of the last paid installment date. For this calculation, always use the Gross Note Rate for the Mortgage Loan or the default interest rate, as applicable.</strong></td>
<td><strong>The interest portion of the fixed installment must be determined by computing 30 days interest on the outstanding principal balance as of the last paid installment date. For this calculation, always use the Gross Note Rate for the Mortgage Loan or the default interest rate, as applicable.</strong></td>
</tr>
</tbody>
</table>
Post-1988 and Pre-1998 Loan Documents using Rider to Multifamily Instrument (Form 4058, 6/93 or Form 4059, 5/93) (the "New Document Loans") and Post-1998 Loan Documents, unless otherwise instructed by Fannie Mae

Servicer must apply monthly payments received from the Borrower in the following order:

- first, to any delinquent interest (other than interest attributable to the default interest rate);
- then, to any delinquent principal;
- then, to interest for the current month at the Gross Note Rate;
- then, to principal for the current month;
- then, to reimburse the Servicer or Fannie Mae for any T&I payments;
- then, to reimburse the Servicer or Fannie Mae for any delinquency resolution costs, attorney fees, Appraisal fees, environmental assessment costs, or PCA costs;
- then, to reimburse the Servicer or Fannie Mae for any payments to protect the Property;
- then, to late charges;
- then, to default interest;
- then, to T&I Custodial Account deposits; and
- finally, to Collateral Agreement Custodial Account deposits.

### 206.02 Non-Fannie Mae Form Loan Documents

For Mortgage Loans not originated using Fannie Mae published Note forms, the Servicer must apply monthly payments received from the Borrower as required by the relevant Loan Documents. If the Loans Documents do not provide for the order of application of monthly payments, then the Servicer must follow the requirements for the Fannie Mae Post-1998 Loan Documents as provided in Part V, Chapter 2: Reporting and Remitting, Section 206.01: Fannie Mae Form Loan Documents.

### Section 207 Payment Shortages

When payments received from the Borrower are less than the total amount then due under the Mortgage Loan (including P&I and T&I, but may also include required deposits to the Replacement Reserve or other monies due as required in the Loan Documents), the Mortgage Loan is in default.
and the Servicer must follow the default procedures specified in Part V, Chapter 7: Non-Performing Mortgage Loans.

The Servicer may not supplement partial payments received from the Borrower with funds from any Collateral Agreement Custodial Account without Fannie Mae's prior written consent.

**Section 208** Delinquency and Servicing Advances

### 208.01 Generally

#### 208.01A Applicability

This Section 208 shall apply to all loans purchased by Fannie Mae (i) under the DUS product line and (ii) under any contracts entered into after June 1, 2012, unless any such contract provides that this Section 208 shall not apply to such contract.

#### 208.01B Delinquency Advances on a Mortgage Loan other than a Credit Enhancement Mortgage Loan

Whether or not the Borrower pays to the Lender the full amount due under a Mortgage Loan (other than a Credit Enhancement Mortgage Loan), the Lender will remit to Fannie Mae Delinquency Advances in an amount equal to all monthly P&I installments then owed under each Mortgage Loan, net of Servicing Fees, in the manner and at the time the Lender is required to make remittances under the Guide or the Lender's Contract. The Lender's agreement to make Delinquency Advances in respect of a Mortgage Loan constitutes a separate contractual obligation of the Lender to Fannie Mae and is not a guaranty or surety of any obligation of the related Borrower. The Lender's obligation to fund Delinquency Advances, except in the case of Secondary Risk Mortgage Loans, is not intended to require advances of the principal balance due on the scheduled or accelerated maturity date for payment in full of a Mortgage Loan. The Lender's obligation to fund Delinquency Advances with respect to Secondary Risk Mortgage Loans shall include the obligation to fund the principal balance due on the scheduled or accelerated maturity date for payment in full of a Mortgage Loan.

#### 208.01C Delinquency Advances on a Credit Enhancement Mortgage Loan

Whether or not the Borrower pays to the Lender the full amount due on a Credit Enhancement Mortgage Loan, and whether such amounts are payable under the Financing Agreement, the Note, the Reimbursement Agreement or other transaction documents, the Lender shall make Delinquency Advances in amounts as follows, each in the amount as required to be made under the Financing Agreement, the Note, the Reimbursement Agreement or other applicable transaction document, net of
any Servicing Fee otherwise payable to the Lender:

- interest payments as required by the definition of Delinquency Advances, net of Servicing Fees;
- monthly installments of principal owed on the Credit Enhancement Mortgage Loan, or, if the transaction documents of the Credit Enhancement Mortgage Loan require the Borrower to make deposits to a PRF in lieu of amortizing the principal of the Credit Enhancement Mortgage Loan in whole or in part, deposit in a special custodial account meeting the requirements of the Guide ("Special Custodial Account") any amounts that the Borrower was obligated under the Note, the Reimbursement Agreement or other applicable transaction document to pay as deposits to the PRF and transfer such funds in the Special Custodial Account to the applicable Bond Trustee at such time as the funds are required for a mandatory payment of P&I under the Bonds;
- the annual or other periodic fee of the Issuer as a continuing fee for the issuance of the Bonds and the provision of the financing for the Property;
- the annual or other periodic continuing trust administration fee of the Bond Trustee;
- the annual or other periodic continuing fee of the rebate analyst, if any, for its rebate calculation services;
- the annual or other periodic continuing fee of the remarketing agent, if any, for its remarketing services;
- the Credit Enhancement Fee;
- if the transaction documents of the Credit Enhancement Mortgage Loan require the Borrower to make deposits to a PRF in lieu of amortizing the principal of the Credit Enhancement Mortgage Loan in whole or in part, the PRF Fee; and
- if the Credit Enhancement Instrument contains a liquidity facility for the Bonds, the Liquidity Fee.

The Lender shall make such advances to the party, in the manner and at the time the Lender is required to make such remittances under the Guide. The Lender’s agreement to make Delinquency Advances in respect of a Credit Enhancement Mortgage Loan constitutes a separate contractual obligation of the Lender to Fannie Mae and is not a guaranty or surety of any obligation of the related Borrower.
208.01D Servicing Advances on a Mortgage Loan other than a Credit Enhancement Mortgage Loan

Whether or not Borrower makes payments to the Lender, the Lender shall make Servicing Advances as and when such amounts constituting Servicing Advances are required to be paid.

208.01E Servicing Advances on a Credit Enhancement Mortgage Loan

Whether or not the Borrower makes payments to the Lender, the Lender shall make Servicing Advances on a Credit Enhancement Mortgage Loan as and when such amounts constituting Servicing Advances are required to be paid. For each Credit Enhancement Mortgage Loan, Servicing Advances shall include, in addition to those items set out in the definition of Servicing Advances, all fees, costs and expenses, whether recurring or non-periodic, not covered by a Delinquency Advance but necessary, as determined by Fannie Mae, to preserve or protect the Bonds or to exercise any legal or equitable remedies under the Bond Indenture, the Bonds or any of the other transaction documents (other than the Loan Documents).

208.02 Duration of Payment of Delinquency Advances or Servicing Advances

208.02A Obligation to Make Delinquency Advances

Unless the Lender’s Contract expressly provides otherwise, the Lender must make Delinquency Advances until the earliest of:

- the Lender’s purchase of the Mortgage Loan from Fannie Mae;
- the date on which Borrower cures the Mortgage Loan default;
- the date on which the Lender makes the fourth of four continuous months of Delinquency Advances;
- the Asset Valuation Date established in accordance with Section 6.02 of the Loss Sharing Addendum; or
- the date on which the Borrower pays off the Mortgage Loan.

Notwithstanding the foregoing, (i) for Securitized Mortgage Loans, the Lender must make Delinquency Advances to Fannie Mae as long as the Mortgage Loan is held by the trust established in connection with such securitization, and (ii) for Credit Enhancement Mortgage Loans, the Lender must make Delinquency Advances to Fannie Mae as long as the Bonds are outstanding. However, in either case, Lender will receive reimbursement for such Delinquency Advances upon request as required by Part V, Chapter 2: Reporting and Remitting, Section 208.02C: Reimbursement for Delinquency and Servicing Advances following the date on which Lender makes the fourth of four consecutive months of Delinquency Advances or, if
earlier, immediately following the Maturity Date of the Mortgage Loan and, thereafter, the Lender will receive reimbursement for each Delinquency Advance upon request. If the Lender believes that Delinquency Advances with respect to a Mortgage Loan are no longer required to be made pursuant to this Section 208.02, the Lender shall notify Fannie Mae, in writing, and upon written confirmation by Fannie Mae that it concurs that no further Delinquency Advances are required, the Lender shall cease making Delinquency Advances with respect to such Mortgage Loan.

208.02B  Obligation to Make Servicing Advances

Unless the Lender’s Contract expressly provides otherwise, the Lender must make Servicing Advances until the earliest of:

- the Lender’s purchase of the Mortgage Loan from Fannie Mae;
- the date on which the Borrower cures the Mortgage Loan default;
- the Asset Valuation Date related to a Foreclosure Event, a sale of the Property directed by a court of competent jurisdiction, a Discounted Loan Payoff, or Note Sale; or
- the date on which the Borrower pays off the Mortgage Loan.

The Lender shall not be required to make Servicing Advances to fund escrows or custodial accounts for taxes, assessments, and insurance premiums or to make payments to the accounts established for the Mortgage Loan; provided, however, that the Lender must apply any partial payments (including any Net Cash Flow from the Property that, under applicable state law, is then available for use by Fannie Mae) in the manner specified in the Loan Documents and the Guide.

208.02C  Reimbursement for Delinquency and Servicing Advances

Upon the expiration of the Lender’s obligation to make Delinquency Advances as provided above or, with respect to any Securitized Mortgage Loan, following the date on which the Lender makes the fourth of four consecutive months of Delinquency Advances, the Lender may, by written notice to Fannie Mae submitted on Fannie Mae Form 4828, together with any supporting documentation required by Fannie Mae, request reimbursement for any and all Delinquency Advances made by the Lender with respect to the Mortgage Loan.

Upon making a Servicing Advance with respect to a Mortgage Loan, Lender may, by written notice to Fannie Mae submitted on Fannie Mae Form 4829, together with any supporting documentation required by Fannie Mae, request reimbursement for such Servicing Advance.

Fannie Mae shall reimburse the Lender for such Delinquency Advances and Servicing Advances within 60 days following Fannie Mae’s
receipt and approval of the Lender’s written request.

This Section 208.02.C shall not apply to Delinquency Advances or Servicing Advances made by the Lender with respect to any Non-Performing Mortgage Loan with a Last Paid Installment prior to March 1, 2012.

208.03 Repayment of Servicing Advances from Borrower

Unless otherwise directed in writing by Fannie Mae, the Lender must seek restitution of any Servicing Advances from the Borrower. For this repayment, the Lender may require the Borrower to make full restitution on the next occurring Mortgage Loan payment due date or may permit the Borrower to make restitution payments over several months. Amounts due from the Borrower for which a Servicing Advance was made may include default interest on the Servicing Advances as permitted in the Loan Documents. Interest must be calculated from and including the date the Servicing Advance is made to but excluding the date the repayment is received. If the Lender permits restitution over several months, such restitution payments will not be included in any required calculation of DSCR.

If the Lender has been reimbursed by Fannie Mae for any Servicing Advances and receives restitution of such Servicing Advances from the Borrower, the Lender shall promptly remit such amounts to Fannie Mae.

208.04 No Capitalization of Servicing Advances for Securitized Mortgage Loans

For the purpose of calculating monthly distributions to the Security certificate holders or other investors, Servicing Advances will not be added to the scheduled principal balance of the related Mortgage Loan, even though the terms of the Mortgage Loan may permit increases to the outstanding principal balance of the Mortgage Loan for such advances and may permit Fannie Mae or the Lender, as applicable, to pursue recovery of those advances from the Borrower. Servicing Advances do not reduce or modify the Borrower’s obligation under the Loan Documents.

208.05 Entitlement to Default Interest

Between Fannie Mae and the Lender, unless the Lender’s Contract expressly provides otherwise, so long as the Lender is obligated to make or has made Delinquency Advances as provided in Part V, Chapter 2: Reporting and Remitting, Section 208.02A: Obligation to Make Delinquency Advances, the Lender is entitled to retain 50 percent of the default interest collected from or on behalf of the Borrower. The other 50 percent of such default interest, to the extent collected from or on behalf of the Borrower, is remitted to and retained by Fannie Mae. Notwithstanding anything in this Section 208.05 to the contrary, with respect to any Non-
Performing Mortgage Loan with a Last Paid Installment prior to March 1, 2012, if the Lender is obligated to make Delinquency Advances then the Lender is entitled to all default interest collected from or on behalf of the Borrower with respect to such Mortgage Loan. If the Lender is not obligated to make any Delinquency Advances on a Non-Performing Mortgage Loan, all default interest shall be remitted to and retained by Fannie Mae. Without regard to whether the Lender is making Delinquency Advances, Fannie Mae is always entitled to the interest that accrues at the stated interest rate on the Mortgage Loan net of the Lender’s Servicing Fee.

**Section 209**

Remittance Procedures

The Servicer must remit to Fannie Mae collections and other amounts due by the specified Remittance Date established for each product type.

**209.01 Definitions**

For purposes of this Section, the following terms shall have the definitions set forth below.

**209.01A Interest Distribution Amount**

For each Mortgage Loan, the interest portion, adjusted to the Pass-Through Rate of the monthly installment (without regard as to whether such amount was collected), due on the first day of the month in which a Remittance Date occurs or which becomes due at any time during the preceding month except the first day thereof.

**209.01B Principal Distribution Amount**

For each Mortgage Loan, the total of (1) the principal portion of the monthly installment due during the period beginning on the second day of the month preceding the month in which a Remittance Date occurs and ending on the first day of the month in which a Remittance Date occurs, without regard as to whether such amount was collected, and (2) any unscheduled principal recovery collected on a Mortgage Loan during the month preceding the month in which a Remittance Date occurs.

**209.01C Monthly Remittance**

The total of the Interest Distribution Amount and Principal Distribution Amount to be remitted to Fannie Mae on each Remittance Date.

**209.01D Remittance Dates**

The Remittance Date is the date the Servicer is to make its monthly remittance to Fannie Mae for each Mortgage Loan.
### Monthly P&I Remittance Dates for Cash and MBS Transactions

Monthly P&I remittances are due on the following designated Remittance Dates unless other dates are provided for in the Lender’s Contract:

<table>
<thead>
<tr>
<th>Mortgage Loan Type</th>
<th>Monthly P&amp;I Remittance Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Cash Fixed Rate, ARM and PFP MBS Mortgage Loans, except as noted below</td>
<td>18th calendar day of each month (or preceding Business Day if the 18th calendar day is not a Business Day).</td>
</tr>
<tr>
<td>ARM Mortgage Loans (including ARM Mortgage Loans that are backing a PFP MBS) purchased for Cash on or after May 25, 2000</td>
<td>11th calendar day of each month (or preceding Business Day if the 11th calendar day is not a Business Day).</td>
</tr>
<tr>
<td>Cash Structured ARM Mortgage Loans (including Structured ARM Mortgage Loans that are backing a PFP MBS)</td>
<td>1st calendar day of each month (or preceding Business Day if the 1st calendar day is not a Business Day). The Structured ARM Note will obligate the Borrower to make its payment to the Servicer two (2) Business Days prior to the 1st calendar day of each month in order to provide sufficient time to the Servicer to receive and process this payment.</td>
</tr>
<tr>
<td>Securitized Mortgage Loans and MBS Structured ARM Mortgage Loans</td>
<td>18th calendar day (or preceding Business Day if the 18th calendar day is not a Business Day) of the month following the month in which the Security is issued and the 18th calendar day of each month thereafter, up to and including the month in which the Security Balance drops to zero. For example, if the Mortgage Loan Maturity Date is November 1, and the scheduled balloon payment due on that date reduces the Security Balance to zero, the last Security monthly remittance would be due on November 18 (not December 18).</td>
</tr>
</tbody>
</table>
For Cash Mortgage Loans, the Servicer must transmit (remit) funds through the Cash Remittance System on the next Business Day following receipt of any of the following Mortgage Loan payoff transactions:

- Full prepayments (payoff of the Mortgage Loan prior to the scheduled maturing date);
- Partial prepayments; or
- Prepayment Premiums.

### 209.04 Use of Cash Remittance System and Requirements

To designate a drafting arrangement for a Custodial Account under the Cash Remittance System, the Servicer must make the appropriate arrangements through its custodial bank(s). When those arrangements have been made, the Servicer must use the Cash Remittance System to electronically transmit information about the drafting arrangement to Fannie Mae via https://multifamily.fanniemae.com. The Servicer must transmit the appropriate information and submit Authorization for Automatic Transfer of Funds (Form 1055) to Fannie Mae at least ten (10) days before the date on which the Servicer will first need to transmit remittance information for funds that are in the new account.

### 209.05 Cash Mortgage Loans – Transmitting the Remittance

#### 209.05A Use of Cash Remittance System

Depending on the type of Mortgage Loan, the Servicer must remit funds through the Cash Remittance System on the Business Day immediately prior to the applicable Remittance Date.

#### 209.05B Required Date for Commencement of Remittance

Remitting funds for any Cash Mortgage Loan must commence with the month following the month Fannie Mae acquired the Mortgage Loan unless the Mortgage Loan was originated during the month in which it was purchased by Fannie Mae, in which case the first monthly remittance will commence the second month following the month Fannie Mae acquired the Mortgage Loan.

#### 209.05C Remittance Transaction Codes

The Cash Remittance System relies on remittance type codes to identify the product and execution for which the Servicer is remitting funds. The remittance type codes related to P&I and special remittances are linked to the specific drafting account that the Servicer has identified for the applicable product and execution. The Servicer can be linked to only one
drafting account whether that account is the P&I Custodial Account for the applicable product and execution serviced under each unique nine-digit Servicer number or the consolidated drafting account. The Servicer must ensure that its drafting instructions (specifically the assignment of remittance type codes) to individual accounts are coordinated with the internal processing of funds within its organization.

The Servicer must assure that its transmissions to Fannie Mae include all of the detail necessary for transmission. This will facilitate better identification of the transactions and ensure timely and accurate processing.

### 209.06 Securitized Mortgage Loans – Drafting the Remittance – Funds Drafted under Automated Drafting System (Not Applicable to PFP MBS)

The Servicer must make the funds representing the Security monthly remittance available for drafting under the Automated Drafting System. To establish a drafting arrangement for a custodial account under the Automated Drafting System (or to change an existing arrangement), the Servicer must void a check from the designated account and enter its nine-digit Fannie Mae identification number in the space where the authorized signature would normally appear. The Servicer must then send the voided check and an executed Multifamily Authorization for Automatic Transfer of Funds (Form 1055) for each drafting arrangement to its custodial bank(s). At the same time, the Servicer must send copies of both the voided check and Form 1055 to Fannie Mae.

When the Servicer remits funds related to Pooled Securitized Mortgage Loans through the Automated Drafting System, it must make the funds available for a single draft, regardless of the number of Security Pools it services. The amount of the draft will be the sum of the P&I (calculated at the Security pass-through rate) distributions for that month.

### 209.07 Additional Requirements for Monthly Remittance for Security Transactions

#### 209.07A Amount of Security Monthly Remittance

The Security monthly remittance is the total of the Security Interest Distribution and Security Principal Distribution Amounts. For each month, the Security monthly remittance must include the scheduled principal payment due on the first day of that month plus a full month's interest (calculated at the Security Pass-Through Rate) due in arrears for the previous month. It also may include unscheduled prepayments of principal.

The Servicer is required to pass through to Fannie Mae in each Security monthly remittance, the full scheduled amounts of P&I, regardless of whether such amounts actually have been collected from the Borrower. A full month's interest (calculated at the Security Pass-Through Rate) must be included in each Security monthly remittance, regardless of whether there has been any partial or full prepayment during the month.
209.07B  Security Interest Distribution Amount

The Security Interest Distribution Amount due is based on the Security Balance remaining after application of the scheduled Mortgage Loan payment due on the first of the previous month. For example, the Security Interest Distribution Amount due on November 18 would be based on the Security Balance remaining after application of the scheduled Mortgage Loan payment due on October 1 (not November 1).

209.08  Securitized Mortgage Loans – Remitting Fees to Fannie Mae

209.08A  Guaranty Fee Due on 7th Calendar Day of Month

To compensate Fannie Mae for the liability it assumes in issuing the Security, Fannie Mae receives a Guaranty Fee. The Guaranty Fee is an obligation of the Servicer and must be paid in arrears on the 7th calendar day, or the preceding Business Day if the 7th calendar day is not a Business Day, of each month, even if there is no collection on the Mortgage Loan or the Mortgage Loan reaches its Maturity Date during the month. Payment of the Guaranty Fee begins with the month following the month in which the Security is issued. Fannie Mae will draft the Guaranty Fee from the Servicer's applicable designated P&I Custodial Accounts for Securitized Mortgage Loans.

The Guaranty Fee amount due Fannie Mae in any month is equal to either (a) for 30/360 interest accrual Mortgage Loans, one-twelfth of the annual Guaranty Fee rate times the Security Balance remaining after application of the scheduled Mortgage Loan principal payment due on the first day of the previous month, or (b) for Actual/360 interest accrual Mortgage Loans, the annual Guaranty Fee rate divided by 360 times the number of days occurring in the month immediately preceding the Guaranty Fee payment date times the Security Balance remaining after application of the scheduled Mortgage Loan principal payment due on the first day of the previous month. For example, for Securitized Mortgage Loans the Guaranty Fee amount due to Fannie Mae on November 7 is calculated on the Security Balance remaining after application of the scheduled Mortgage Loan principal payment due on October 1.

209.08B  Guaranty Fee Remittance

The monthly Guaranty Fee must be remitted as long as the Security is outstanding, even if there is no collection activity on the Mortgage Loan.

The Servicer must make funds available for the Guaranty Fee draft on the 7th calendar day of the month, or the preceding Business Day if the 7th is not a Business Day.

Under this process, Fannie Mae will send an electronic notice (or
“bill”) on the 2nd or 3rd calendar day of each month. The draft notice will show the amount due for the Guaranty Fees. When the Servicer receives the transmission, the Servicer must review the draft notice for accuracy. If discrepancies are identified, the Servicer must contact Fannie Mae by the 5th calendar day of the month to provide details on the amount and nature of the discrepancy. Fannie Mae will then review its records to validate the discrepancy and make any necessary adjustments to the Guaranty Fee bill. On the 7th calendar day of the month, Fannie Mae will draft the Guaranty Fees from the Servicer’s designated P&I Custodial Account for Securitized Mortgage Loans. If the 7th calendar day is not a Business Day, the draft will take place on the preceding Business Day.

209.08C Same Month Pooling – Interest and Guaranty Fee Remittance for First Reporting Cycle

The Servicer’s first remittance to Fannie Mae for a Mortgage Loan submitted under the Same Month Pooling delivery option is an "interest-only" remittance because the Borrower will not have made the first payment. Accordingly, because the Borrower will not be required to send a monthly payment to the Servicer under Same Month Pooling until the month following the date the Servicer’s first remittance is due to Fannie Mae, the Servicer will have to use some of its own funds to remit the interest that is "scheduled" to be passed through to Fannie Mae for the Mortgage Loan in that month and to make the first required Guaranty Fee remittance. The interest remittance will represent one month's full interest, and will be equal to the Issue Date principal balance of the Mortgage Loan times either (a) for 30/360 interest accrual Mortgage Loans, one-twelfth of the annual Pass-Through Rate of the Security, or (b) for Actual/360 interest accrual Mortgage Loans, the annual Pass-Through Rate of the Security divided by 360 times the number of days occurring in the month of issuance of the Security. The Guaranty Fee payment will represent one month's full Guaranty Fee, and be calculated as provided in Part V, Chapter 2: Reporting and Remitting, Section 209.08A: Guaranty Fee Due on 7th Calendar Day of Month based on Issue Date principal balance of the Mortgage Loan.

Fannie Mae will not reimburse the Servicer for its interest or Guaranty Fee remittance. However, the Servicer must:

- receive a partial month's interest based on the Note Rate from the Borrower at closing (from the date of closing through the end of the month), and
- receive interest based on the Pass-Through Rate from the purchaser of the Security (from the first day of the month in which the Security is issued to the Book-Entry Delivery Date) as part of the sales proceeds for the Security.
### 209.09 Notification to Fannie Mae if Unable to Have Funds Available on any Remittance Date

If, for any reason, the Servicer cannot make funds available for drafting on the Business Day prior to the designated Remittance Date, it must immediately notify Fannie Mae by calling the Servicer’s Fannie Mae Representative. The Servicer must describe to Fannie Mae all circumstances and conditions that prevent the monthly remittance from being made on time.

### Section 210 Full Prepayments

#### 210.01 Review of Applicable Loan Documents Required

When the Servicer receives a Borrower’s notification of intent to prepay the Mortgage Loan, it must examine the specific Note (including any applicable addendum, exhibit, modification, or amendment) and Security Instrument (and any applicable rider, exhibit, modification or amendment) to determine whether prepayment of the Mortgage Loan is permitted and, if so, under what conditions. The prepayment provisions of the actual Mortgage Loan Documents govern in each case.

#### 210.02 Notification of Prepayment; Timing of Prepayment

##### 210.02A Notice and Timing Consistent with Loan Documents

The Borrower’s proposed prepayment date and the timing of its advance notification of its intent to prepay must be consistent with the provisions of the Loan Documents.

##### 210.02B Borrower Notice Must Contain Date of Intended Prepayment and Comply with Notice Requirements of the Loan Documents

The Servicer must obtain from the Borrower the date on which the Borrower will prepay the Mortgage Loan. The Borrower must give the Servicer advance notice of its intent to make a full prepayment as required by the Loan Documents.

##### 210.02C Loan Document Requirements for Payoff and Lockout Dates

If a Fannie Mae form Multifamily Note evidences the Mortgage Loan, a prepayment may be made only on the last Business Day before a scheduled Mortgage Loan payment date. Non-Fannie Mae form Notes may not contain the same requirement. Some Notes may contain lockout provisions that prohibit full prepayment for a specified period of time. The Servicer must not permit a payoff that does not comply with the requirements contained in the Loan Document.
210.02D Notice to Fannie Mae of Proposed Payoff; Use of Fannie Mae Payoff Calculator

The Servicer must notify Fannie Mae, in writing or through the Fannie Mae Payoff Calculator, upon receiving notice from the Borrower of a planned prepayment. Notice of the planned prepayment must be received by Fannie Mae not later than 10 Business Days prior to the contemplated payoff date. The Fannie Mae Payoff Calculator may only be used when the Fannie Mae form Multifamily Note evidences the Mortgage Loan.

210.03 Timing of Confirmation of the Full Prepayment Payoff Amount

The Servicer must ensure that the payoff figure quoted to the Borrower is correct. Accordingly, before the Servicer advises the Borrower of the full prepayment payoff amount, the Servicer must confirm such amount with Fannie Mae. The Servicer’s request for confirmation of the full prepayment payoff amount must be submitted to Fannie Mae at least 10 Business Days before the scheduled prepayment date. At least 5 Business Days prior to the scheduled prepayment date, the Servicer must provide the Borrower written confirmation of the amount required to pay off the Mortgage Loan in full.

210.04 Full Prepayment for Cash Transactions and PFP MBS

210.04A Confirming the Full Prepayment Payoff Amount

1. Calculating the Full Prepayment Payoff Amount

To obtain Fannie Mae’s confirmation of the full prepayment payoff amount, the Servicer must either submit a written statement detailing all amounts that it believes will be due and payable by the Borrower on the prepayment date or submit the information through the Payoff Calculator, including:

- the UPB of the Mortgage Loan (as of the prepayment date);
- all accrued and to-be accrued interest, broken down into the net interest portion due to Fannie Mae (calculated at the Pass-Through Rate) and the portion to be retained by the Servicer as a Servicing Fee, calculated as if the payoff is occurring on the last day of the month in which the prepayment is occurring;
- any unpaid late fees, if applicable;
- any Prepayment Premium that is due in connection with the full prepayment, broken down into the portions due to Fannie Mae and the Servicer, respectively; and
- any other amounts due under the Note, Security Instrument, or any other Mortgage Loan Document, including, if applicable, any unpaid fee due under any Collateral Agreement.
2. Fannie Mae Will Not Confirm Nor Is Responsible for Amounts Owing to Servicer

Fannie Mae is not responsible for confirming any amounts owed to the Servicer at the time of the prepayment (e.g., any administrative fees due for services performed by the Servicer under a Collateral Agreement); however, the Servicer's payoff statement must clearly denote any such amounts so that Fannie Mae can distinguish them from amounts due exclusively to Fannie Mae. The Servicer is solely responsible for ensuring that any payoff quote given to the Borrower includes any amounts that are owed exclusively to the Servicer, as Fannie Mae will not reimburse the Servicer for such amounts from any of the funds that the Borrower remits to cover the amounts confirmed as being due to Fannie Mae.

3. Fannie Mae Confirmation of Full Prepayment Payoff Amount for Primary Risk Mortgage Loans

Fannie Mae will review the Servicer's figures and contact the Servicer to reconcile any discrepancies. Upon completion of its review and any necessary reconciliation, Fannie Mae will respond in writing to the Servicer's verification request. In its response, Fannie Mae will confirm the total payoff amount due to Fannie Mae, as well as the individual items comprising such total amount, including:

- the UPB of the Mortgage Loan;
- the net accrued interest due Fannie Mae;
- any applicable Prepayment Premium (broken down into the portions due to Fannie Mae and the Servicer); and
- any previously unpaid fees or other amounts owed to Fannie Mae.

Fannie Mae will provide any pertinent instructions for completing the prepayment payoff process, including any specific instructions that the Servicer must include in its payoff quote to the Borrower.

4. No Quote to Borrower until Fannie Mae Confirmation for Primary Risk Mortgage Loans

To ensure that the Borrower is quoted the correct payoff amount, including any applicable accrued interest, Prepayment Premium, late fees, or other amounts that might be owed under the terms of the Note, the Security Instrument, or the other Mortgage Loan Documents, the Servicer must not quote a final payoff amount to the Borrower without first obtaining Fannie Mae’s confirmation of the accuracy of the Servicer's figures.

5. Fannie Mae Confirmation of Full Prepayment Payoff Amount for Secondary Risk Mortgage Loans

Unless the Lender’s Contract provides otherwise, Fannie Mae will not review the Servicer's payoff calculation for Secondary Risk Mortgage Loans.
Loans. The Servicer is solely responsible for ensuring that any payoff quote given to the Borrower includes all amounts that are owed to Fannie Mae and to the Servicer.

6. Servicer Liability

Whether confirmed by Fannie Mae through the Payoff Calculator or the payoff calculation is performed by the Servicer, the Servicer is required to collect all amounts owing by the Borrower on a Mortgage Loan payoff. If Fannie Mae determines that Servicer has provided the Borrower incorrect information because of an error in the calculation of the payoff quote, the Servicer will be responsible for any shortfall and must remit all amounts due to Fannie Mae whether or not it has collected such amounts from the Borrower.

210.04B  Reporting Full Prepayment Payoff Amount

1. Full Prepayment Payoff Amount Received on First Business Day of Month

Notwithstanding anything to the contrary above, any full prepayment of a Mortgage Loan from or on behalf of a Borrower that is received by the Servicer on the first Business Day of a month will be deemed received in the prior calendar month for purposes of reporting and remitting such full prepayment.

2. Full Prepayment Reported through the eServicing System Due By 2nd Day of Month

The full prepayment must then be reported electronically to Fannie Mae through the eServicing System. The report of the full payment must be transmitted in time to reach Fannie Mae by the 2nd calendar day of the month following the month of prepayment.

210.04C  Remitting Full Prepayment Payoff Amount

1. Using Pass-Through Rate to Calculate Remittance to Fannie Mae

The Servicer must use the Pass-Through Rate to calculate its P&I remittance to Fannie Mae. After collecting payoff proceeds, calculated in the manner described above at the Gross Note Rate, the Servicer must subtract its Servicing Fee, calculated using a per diem rate based on the interest accrual method provided for in the Loan Documents.

2. Remittance Due on Next Business Day

Once the payoff amount is confirmed, the proceeds from a payment in full, including the Prepayment Premium (when required pursuant to the terms of the Note, as modified by any Addendum), must be remitted to Fannie Mae via the Cash Remittance System on the next Business Day following the day on which the prepayment proceeds are received. This
means that the Servicer must enter drafting information into the Cash Remittance System by 4:00 p.m. Eastern Time, on the day on which the prepayment proceeds are received.

### 210.05A Confirming the Full Prepayment Payoff Amount

#### 1. Calculating the Full Prepayment Payoff Amount

To obtain Fannie Mae’s confirmation of the final payoff amount for a Securitized Mortgage Loan, the Servicer must submit a statement, detailing:

- All amounts that it has determined will be due and payable by the Borrower on the prepayment date, including:
  - the UPB of the loan (as of the prepayment date);
  - all accrued and to-be accrued interest, broken down into the net interest portion due to Fannie Mae (calculated at the Pass-Through Rate) and the portion to be retained by the Servicer as a Servicing Fee, calculated as if the payoff is occurring on the last day of the month in which the prepayment is occurring;
  - any unpaid late fees, if applicable;
  - any Prepayment Premium, if any, that is due in connection with the full prepayment specifying the respective portions due Fannie Mae, the Security certificate holder and Servicer; and
  - any other amounts due under the Note, Security Instrument, or any other Loan Document, including, if applicable, any unpaid fee due under any Collateral Agreement.

- All amounts that will be due and payable to Fannie Mae by the Servicer on the 18th of the month following the month of prepayment, including:
  - the UPB of the loan;
  - a full month’s accrued interest, calculated at the MBS Pass-Through Rate;
  - any applicable Prepayment Premium broken down into the portions due to the MBS investor, the Servicer, and Fannie Mae calculated in accordance with the Guide; and
  - any previously unpaid fees or other amounts owed to
2. Fannie Mae Will Not Confirm Nor Is Responsible for Amounts Owing to Servicer

Fannie Mae is not responsible for confirming any amounts owed to the Servicer at the time of the prepayment (e.g., any administrative fees due for services performed by the Servicer under a Collateral Agreement); however, the Servicer's payoff statement must clearly denote any such amounts so that Fannie Mae can distinguish them from amounts due exclusively to Fannie Mae, and the MBS investor, if applicable.

3. Fannie Mae Confirmation of Full Prepayment Payoff Amount for Primary Risk Mortgage Loans

Fannie Mae will review the Servicer's figures and contact the Servicer to reconcile any discrepancies for Primary Risk Mortgage Loans. Upon completion of its review and any necessary reconciliation, Fannie Mae will respond (in writing) to the Servicer's verification request. In its response, Fannie Mae will confirm the total payoff amount due to the Servicer from the Borrower, and will also separately confirm the amounts due to Fannie Mae from the Servicer, as well as individual items comprising such total amounts, including:

- the UPB of the Mortgage Loan; and
- accrued interest due:
  - to the Servicer from the Borrower;
  - a full month’s accrued interest due Fannie Mae;
- any applicable Prepayment Premium (broken down into the portions due to Fannie Mae, the Servicer, and the MBS investor); and
- any previously unpaid fees or other amounts owed to Fannie Mae.

4. No Quote to Borrower Until Fannie Mae Confirmation for Primary Risk Mortgage Loans

To ensure that the Borrower is quoted the correct payoff amount, including any applicable accrued interest, Prepayment Premium, late fees, or other amounts that might be owed under the terms of the Note, the Security Instrument, or the other Mortgage Loan Documents, the Servicer must not quote a final payoff amount to the Borrower without first obtaining Fannie Mae’s confirmation of the accuracy of the Servicer’s figures.

5. Fannie Mae Confirmation of Full Prepayment Payoff Amount for Secondary Risk Mortgage Loans
Fannie Mae will not review the Servicer's payoff calculation for Secondary Risk Mortgage Loans. The Servicer is solely responsible for ensuring that any payoff quote given to the Borrower includes all amounts that are owed to Fannie Mae and to the Servicer.

6. Servicer Liability

Whether confirmed by Fannie Mae through the Payoff Calculator or the payoff calculation is performed by the Servicer, the Servicer is required to collect all amounts owing by the Borrower on a Mortgage Loan payoff. If Fannie Mae determines that Servicer has provided the Borrower incorrect information because it quotes a final payoff amount to the Borrower prior to Fannie Mae confirmation or has erred in its calculation of the payoff quote where Fannie Mae confirmation is not provided, the Servicer will be responsible for any shortfall and must remit all amounts due to Fannie Mae whether it has collected such amounts from the Borrower.

210.05B Reporting Full Prepayment Payoff Amount

1. Security Reporting

By the second Business Day of the month following the month of prepayment, the Servicer must report the amount of the Prepayment Premium collected to Fannie Mae via the eServicing System in accordance with the reporting requirements provided in this Chapter.

2. Mortgage Loan Reporting Requirements

The Servicer must report the prepayment amount, including any applicable Prepayment Premium, to Fannie Mae by the second Business Day of the month following the month in which the prepayment occurs in accordance with the reporting requirements provided in this Chapter.

210.05C Remitting Full Prepayment Payoff Amount

1. Using Pass-Through Rate to Calculate Remittance to Fannie Mae

Under MBS, the Servicer must remit a full month's accrued interest (calculated at the MBS Pass-Through Rate) for each month that the MBS is outstanding, even if a full or partial prepayment occurs during that month. Any shortfall between the interest collected from the Borrower and the full month's interest that is due to Fannie Mae must be deposited in the Servicer's MBS P&I Custodial Account from the Servicer's own funds and remitted to Fannie Mae. The Servicer must also remit a full month's Guaranty Fee for each month that the MBS is outstanding, even if a full or partial prepayment occurs during that month.

2. Remittance Due on 18th Calendar Day

The Servicer must remit the prepayment amount due Fannie Mae on the 18th calendar day of the month (or the preceding Business Day if the
18th is not a Business Day) following the month in which the payoff occurs in accordance with remittance requirements contained in this Chapter.

Section 211 Partial Prepayments Not From Insurance or Condemnation Proceeds

211.01 Partial Prepayments Generally Prohibited

Partial prepayment of the outstanding balance of any Mortgage Loan is prohibited unless explicitly permitted in the Mortgage Loan Documents. Under certain circumstances, to the extent permitted in the Mortgage Loan Documents, the proceeds of a Letter of Credit held pursuant to an Achievement Agreement or deposits held under a Replacement Reserve Schedule or other Collateral Agreement may be applied as a partial prepayment of the Mortgage Loan.

211.02 Partial Prepayment Procedures

211.02A Servicer’s Analysis of Loan Documents

Any request from the Borrower for permission to make a partial prepayment must be forwarded to the Servicer’s Fannie Mae Representative, along with the Servicer’s analysis and recommendation. The Servicer must carefully examine the Mortgage Loan Documents to determine if partial prepayments are permitted and, if so, under what conditions and whether a Prepayment Premium is required. The Servicer’s analysis of the request must include information about:

- the event or condition precipitating the prepayment request;
- the amount of principal that would be prepaid;
- the estimated Prepayment Premium, if any, that would be due in connection with the partial prepayment;
- any proposed recasting of the Mortgage Loan or other modification of the repayment terms; and
- the proposed timing of the prepayment.

211.02B Fannie Mae Approval Required for Partial Prepayments

Unless the Loan Documents expressly permit partial prepayments, Fannie Mae's approval is required before any partial prepayment is made. If the Servicer’s Fannie Mae Representative agrees to allow or requires a partial prepayment to be made, it will advise the Servicer in writing of any specific conditions that will apply to such partial prepayment. Such specific conditions may include:
when and how the prepayment must occur;
whether a Prepayment Premium must be paid; and
whether the Mortgage Loan repayment terms will be altered and, if so, how the Mortgage Loan Documents would have to be modified to reflect such alterations, etc.

Any decision to modify the Mortgage Loan repayment terms in connection with the partial prepayment will be made by Fannie Mae, in its sole and absolute discretion.

211.02C  Prepayment Premium Due on Partial Prepayment

When a Prepayment Premium is required in connection with any partial prepayment, the Prepayment Premium is assessed on the amount of principal being prepaid and not on the outstanding UPB of the Mortgage Loan calculated and verified in the same manner as is required for full prepayments.

211.02D  Reporting and Remitting Partial Prepayments When Not Permitted in Loan Documents

Partial prepayments must be reported in the same manner as is required for full prepayments. When Fannie Mae’s approval is received, the proceeds representing the partial prepayment, including the Prepayment Premium (when required pursuant to the terms of the Loan Documents), must be remitted to Fannie Mae in the same manner and timeframe as required for full prepayments.

211.02E  Reporting and Remitting Partial Prepayments When Permitted in Loan Documents

Fannie Mae approval is not required when the Loan Documents permit partial prepayments. Any such partial prepayments must be reported and remitted to Fannie Mae in the same manner and timeframe as is required for monthly remittances.

Section 212  Prepayments (Full or Partial) Involving Insurance Proceeds or Condemnation Awards

212.01  Partial Prepayments Generally Permitted

Partial prepayment of the Mortgage Loan is generally permitted for the application of the proceeds of an insurance claim or a condemnation award. Servicer must follow the requirements contained in the Loan Documents in connection with any such partial prepayment.
212.02 No Prepayment Premium Required

The Borrower is **not** required to pay a Prepayment Premium in connection with any prepayment that occurs as a result of the application to the Mortgage Loan of insurance proceeds or condemnation award proceeds, regardless of when during the Mortgage Loan term such prepayment occurs.

212.03 Reporting and Remitting Partial Prepayments

The proceeds representing the partial prepayment must be reported and remitted to Fannie Mae in the same manner and timeframe as is required for monthly remittances.

Section 213 Prepayment Premium Sharing

213.01 General

The Lender Contract governs over the requirements of the Guide if it specifies whether the Lender or Servicer is entitled to retain a portion of any Prepayment Premium paid by the Borrower. If the Lender Contract provides that the Lender or Servicer is entitled to retain a portion of the Prepayment Premium, then the Servicer must calculate the applicable share of the Prepayment Premium owed to the Lender or Servicer, and remit to Fannie Mae that portion of the Prepayment Premium owed to Fannie Mae or the Investor. If the Lender Contract provides that the Lender or Servicer is not entitled to retain a portion of the Prepayment Premium, then the entire Prepayment Premium must be remitted to Fannie Mae.

If the Lender Contract does not specify whether the Lender or Servicer is entitled to retain a portion of any Prepayment Premium, then the Servicer is entitled to retain a portion of any Prepayment Premium only as provided below.

The Servicer must always remit the portion of the Prepayment Premium due to the Investor and to Fannie Mae with the final Mortgage Loan payment via ACH using the Multifamily Authorization for Automatic Transfer of Funds (Form 1055), retaining the balance of the Prepayment Premium due the Servicer as provided above. Upon receipt, Fannie Mae will pass through the portion of the Prepayment Premium due to the Investor.

213.02 Yield Maintenance Prepayment Premiums – Prepayment Occurs Before the Yield Maintenance Period End Date

213.02A Calculation of Total Prepayment Premium

For any prepayment that occurs before the Yield Maintenance Period End Date, the Servicer must first determine the total Prepayment Premium owing by the Borrower in accordance with the Loan Documents.
The Loan Documents generally require the Borrower to pay a Prepayment Premium equal to the greater of (i) 1% of the UPB (the “Minimum 1% Prepayment Premium”), or (ii) yield maintenance.

213.02B Calculation of Investor’s Share of Total Prepayment Premium for a Securitized Mortgage Loan

Fannie Mae does not guaranty payment of any portion of the Prepayment Premium to the Investor. The Investor only receives a share of any Prepayment Premium actually received from the Borrower. For a Securitized Mortgage Loan, the Servicer must calculate the Investor’s share of the total Prepayment Premium. The Investor’s portion is equal to the total Prepayment Premium multiplied by a ratio equal to: Pass-Through Rate / Gross Note Rate.

213.02C Calculation of Fannie Mae’s Share of Total Prepayment Premium

For both Securitized Mortgage Loans and Cash Mortgage Loans, the Servicer must calculate Fannie Mae’s share of the total Prepayment Premium. If the Prepayment Premium is greater than the Minimum 1% Prepayment Premium, the difference between the total Prepayment Premium and the portion due to the Investor will be shared between Fannie Mae and the Servicer. Fannie Mae’s share of the total Prepayment Premium is equal to the total Prepayment Premium multiplied by a ratio equal to: Guaranty Fee / Gross Note Rate.

If the total Prepayment Premium is equal to the Minimum 1% Prepayment Premium, the entire portion of the Prepayment Premium remaining after any Investor portion has been determined will be due to Fannie Mae and no portion will be due the Servicer.

213.02D Calculation of Servicer’s Share of Total Prepayment Premium

The Servicer is only entitled to retain a portion of the Prepayment Premium if the Prepayment Premium exceeds the Minimum 1% Prepayment Premium. The Servicer’s share of the total Prepayment Premium will be equal to the total Prepayment Premium multiplied by a ratio equal to: Servicing Fee / Gross Note Rate.

213.03 Yield Maintenance Prepayment Premiums – Prepayment Occurs On or After the Yield Maintenance Period End Date

213.03A Prepayment On or After Yield Maintenance Period End Date

The Loan Documents may provide that any full prepayment that occurs on or after the Yield Maintenance Period End Date but before a date specified in the Loan Documents (typically the last calendar day of the fourth month prior to the month in which the Maturity Date occurs), must be
accompanied by a Prepayment Premium equal to a stated amount (usually 1% of the UPB of the Mortgage Loan). Neither the Investor nor the Servicer is entitled to any portion of any Prepayment Premium paid on or after the Yield Maintenance Period End Date. The entire Prepayment Premium must be remitted to Fannie Mae.

**213.03B Prepayment During Open Period**

The Loan Documents may provide that the Borrower is not required to pay any Prepayment Premium in connection with a full prepayment made on or after a date specified in the Loan Documents (typically the last calendar day of the fourth month prior to the month in which the Maturity Date occurs).

**213.04 Fixed Rate Mortgage Loans with Graduated Prepayment Premiums**

For fixed rate Mortgage Loans where the Loan Documents require a graduated Prepayment Premium, the Servicer is not entitled to retain any portion of the Prepayment Premium. The entire Prepayment Premium must be remitted to Fannie Mae.

**213.05 Prepayment Premiums for ARM Loans and Structured ARM Loans**

Unless the prepayment of an ARM Loan that used Prepayment Option 1 or Prepayment Option 2, or of a Structured ARM Loan is the result of a casualty or condemnation, any prepayment made before a date specified in the Loan Documents (typically the last calendar day of the fourth month prior to the month in which the Maturity Date occurs) must include a Prepayment Premium that will be shared between Fannie Mae and the Servicer. The Investor is not entitled to receive any portion of the Prepayment Premium for either an ARM Loan or a Structured ARM Loan. In each case, Fannie Mae’s share will be a percentage determined by the following formula:

\[
\text{Guaranty Fee} \quad \left(\frac{\text{Guaranty Fee} + \text{Servicing Fee}}{\text{Guaranty Fee} + \text{Servicing Fee}}\right)
\]

For example, if the Guaranty Fee is 62.5 basis points and if the Servicing Fee is 45 basis points, then Fannie Mae's share will be:

\[
\begin{array}{c|c|c}
62.5 & \text{or} & 58.14\%.
\end{array}
\]

The Servicer must remit the portion of the Prepayment Premium due Fannie Mae with the final Mortgage Loan payment. The Servicer may retain the balance of the Prepayment Premium.
No Prepayment Premium is due in connection with an ARM Loan with a conversion option or with a Structured ARM Loan that is converting to a fixed rate Mortgage Loan.

### 213.06 Prepayment Premium Waivers; Servicer’s Share of Prepayment Premium

The Servicer may not waive any portion of the Prepayment Premium due and owing under the Loan Documents, except as provided in Part III, Chapter 18: Choice Refinance Loans, Section 1803: Prepayment Premiums in connection with a Choice Refinance Loan.

No portion of the Servicer’s share of the Prepayment Premium may be:

- waived by the Lender;
- used as a rebate to the Borrower, or any party related to the Borrower, for any purpose; or
- used for the payment of any expenses related to any loan used to refinance the Mortgage Loan.

### Section 214 Maturing Mortgage Loans/Payoffs

#### 214.01 Balloon Mortgage Loans

Fannie Mae expects any Borrower with a Balloon Mortgage Loan to refinance or otherwise pay off the Mortgage Loan in full on (or before) the scheduled Maturity Date. Failure to pay off the Mortgage Loan in full on (or before) the scheduled Maturity Date is a default and puts the Borrower at risk that Fannie Mae will exercise any available remedy under the Security Instrument and the other Loan Documents. Whenever a Borrower fails to pay off a Balloon Mortgage Loan on its Maturity Date, the Servicer must notify its Fannie Mae Representative of such failure as soon as possible, and must report the balloon payment default on the Multifamily Delinquency System®. Any acceptance of a payoff amount occurring after the Balloon Mortgage Loan’s stated Maturity Date must be approved by Fannie Mae.

#### 214.02 Servicer Notification of Payoff Amount to Borrower

At least 5 days prior to the scheduled Maturity Date of the Mortgage Loan, the Servicer must advise the Borrower in writing of the amount required to pay off the Mortgage Loan in full. The Servicer must ensure that the payoff figure quoted to the Borrower is correct.

#### 214.03 Calculating and Obtaining Confirmation of Payoff Amount

##### 214.03A Calculating the Full Payoff Amount
The Servicer's request for verification of the final payoff amount must be submitted to Fannie Mae at least 10 days before the scheduled Maturity Date. To obtain Fannie Mae's confirmation of the final payoff amount, the Servicer must submit a statement, detailing all amounts that it believes will be due and payable by the Borrower on the payoff date, including:

- the UPB of the Mortgage Loan (as of the payoff date);
- accrued interest, up to the payoff date, broken down into the net interest portion due to Fannie Mae (calculated at the Pass-Through Rate) and the portion to be retained by the Servicer as a Servicing Fee;
- any unpaid late fees, if applicable; and
- any other amounts due under the Note, Security Instrument, or any other Mortgage Loan Document, including, if applicable, any unpaid fee due under any Collateral Agreement.

214.03B  Fannie Mae Will Not Confirm Nor Is Responsible for Amounts Owing to Servicer

Fannie Mae is not responsible for confirming any amounts owed to the Servicer at the time of the payoff (e.g., any administrative fees due for services performed by the Servicer under a Collateral Agreement); however, the Servicer's payoff statement must clearly denote any such amounts so that Fannie Mae can distinguish them from amounts due exclusively to Fannie Mae. The Servicer is solely responsible for ensuring that any payoff quote given to the Borrower includes any amounts that are owed exclusively to the Servicer, as Fannie Mae will not reimburse the Servicer for such amounts from any of the funds that the Borrower remits to cover the amounts confirmed as being due to Fannie Mae.

214.03C  Fannie Mae Confirmation of Full Payoff Amount

Fannie Mae will review the Servicer's figures and contact the Servicer to reconcile any discrepancies. Upon completion of its review and any necessary reconciliation, Fannie Mae will respond (in writing) to the Servicer's verification request. In its response, Fannie Mae will confirm the total payoff amount due to Fannie Mae, as well as the individual items comprising such total amount, including:

- the UPB of the Mortgage Loan;
- the net accrued interest due Fannie Mae;
- any applicable Prepayment Premium; and
- any previously unpaid fees or other amounts owed to Fannie Mae.
Fannie Mae also will provide any pertinent instructions for completing the payoff process, including any specific instructions that the Servicer must pass along to the Borrower with the payoff quote.

214.03D No Quote to Borrower Until Fannie Mae Confirmation

To ensure that the Borrower is quoted the correct payoff amount, including any applicable accrued interest, Prepayment Premium, late fees, or other amounts that might be owed under the terms of the Note, the Security Instrument, or the other Mortgage Loan Documents, the Servicer must not quote a final payoff amount to the Borrower without first obtaining Fannie Mae’s confirmation of the accuracy of the Servicer’s figures.

214.04 Reporting the Payoff and Remitting the Payoff Funds

214.04A Reporting Full Payoff Amount Through the eServicing System Due By 2nd Business Day of Month

The full payoff must be reported electronically to Fannie Mae through the eServicing System. The report of the full payment must be transmitted in time to reach Fannie Mae by the 2nd Business Day of the month following the month of payoff.

214.04B Remitting Full Payoff Amount

1. Using Pass-Through Rate to Calculate Remittance to Fannie Mae

The Servicer must use the Pass-Through Rate to calculate its P&I remittance to Fannie Mae. After collecting payoff proceeds, calculated in the manner described above at the Gross Note Rate, the Servicer must subtract its Servicing Fee, calculated using a per diem rate based on a 360-day year.

2. Remittance Due on Next Business Day for Cash Mortgage Loans or Next Remittance Cycle for Securitized Mortgage Loans

After the payoff amount is confirmed, the proceeds from a payment in full, including any applicable Prepayment Premium (when required pursuant to the terms of the Note), must be remitted via the Fannie Mae Cash Remittance System:

- for Cash Mortgage Loans, on the next Business Day following the day on which the prepayment proceeds are received and the Servicer must enter drafting information into the Cash Remittance System by 4:00 p.m. Eastern Time, on the day on which the payoff proceeds are received; or
- for Securitized Mortgage Loans, the Servicer must follow the reporting and remitting procedures for monthly installment reporting and remitting.
Section 215  Post-Payoff Actions

215.01 Servicer Required Actions

215.01A General

To facilitate the return of release documents from Fannie Mae, at all times the Servicer must maintain on file with Fannie Mae a master file copy of the Custody Document Transmittal (Form 276) completed with the following information:

- the Lender’s nine digit Servicer number;
- “MASTER FORM” entered for the Fannie Mae Loan Number;
- “Payoff” checked as the liquidation reason; and
- the Lender’s mailing address.

The completed form must be sent to Multifamily Master Servicing. If the mailing information for the Lender changes at any time, the Lender must update the master file copy of the Custody Document Transmittal (Form 276) with Fannie Mae.

215.01B Individual Mortgage Loan Releases

For each Mortgage Loan, upon receipt of the payoff funds from the Borrower, the Servicer must:

- refund to the Borrower any T&I escrow funds and any Replacement Reserve funds still held by the Servicer in connection with the Mortgage Loan (must be accomplished within 30 days of the payoff); and
- send the following to Fannie Mae:
  - if the release documents are to be sent to a different mailing address than that listed on the master file copy of the Custody Document Transmittal (Form 276) with Fannie Mae, a transaction-specific Custody Document Transmittal (Form 276), requesting Fannie Mae to return the original Note and indicating the different address to which the release documents for that specific Mortgage Loan should be sent;
  - for all recorded Loan Documents (e.g., Security Instrument) that require a release, the appropriate release document for the state in which the Property is located; and
  - a request to Multifamily Servicing to release any additional collateral still held by Fannie Mae in connection with the
Fannie Mae will execute the necessary releases, and return them, along with the original Note (appropriately marked or stamped to evidence full satisfaction), to the Servicer. The Servicer must return the Note to the Borrower, file the appropriate UCC termination forms and arrange to have the release documents recorded. Fannie Mae will be responsible for returning any applicable Achievement Letter of Credit to the issuer for cancellation.

### 215.02 Post Payoff Document Retention Requirements

Following its return to the Servicer of the Note and the releases for all recorded Loan Documents, Fannie Mae will forward its file for the Mortgage Loan to the Servicer. The Servicer must retain the entire Mortgage Loan Servicing File for 7 years after a Mortgage Loan payoff.

### Section 216 DUS Bond Credit Enhancement Transactions – Reporting and Remitting Requirements

The requirements of this Section are applicable to Bond Credit Enhancement Transactions only and the Servicer’s reporting, collection, and remitting of prepayments must be done in accordance with the procedures described below.

#### 216.01 Monthly Bond Credit Enhancement Reporting

For reporting purposes, the Servicer must segregate its DUS Bond Credit Enhancement portfolio into 2 groups:

- DUS Bond Credit Enhancement by Credit Enhancement Instrument and Collateral Agreement; or
- DUS Bond Credit Enhancement by a Security.

The Servicer must electronically submit a Credit Enhancement Activity Report (Form 4090) using the Credit Enhancement Servicing and Investor Reporting System (CESIR) for each DUS Bond Credit Enhancement Mortgage Loan and Bond each month. The date that the Credit Enhancement Activity Report is due is dependent on whether the Mortgage Loan’s monthly P&I payments are due on the first of the month or on the 15th of the month.

The Servicer must register to use CESIR prior to use. Information regarding registering for CESIR can be found on https://multifamily.fanniemae.com/applications-technology/cesir.

For most DUS Bond Credit Enhancements, the monthly reporting
rule is applied as follows:

- If the Mortgage Loan payments are due on the first of the month, the report is due on the fourth calendar day of the month or the next Business Day if the fourth calendar day of the month is not a Business Day; or

- If the Mortgage Loan payments are due on the 15th day of the month, the report is due on the 15th calendar day of the same month or the next Business Day if such day is not a Business Day.

The monthly report must include:

- all scheduled Mortgage Loan payments to be made by the Borrower whether or not such payments are actually made by the Borrower; and

- bond redemptions reported by the Bond Trustee for the current calendar month.

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### 216.02 Monthly Remittance Procedures

#### 216.02A Monthly Remittances of Scheduled Payments to Bond Trustee

Monthly remittances to the Bond Trustee depend on the execution type for the transaction and applicable transaction requirements.

1. **Standby Execution**

   For Standby executions, the Servicer must pay the Scheduled Payments (net of the Facility Fee) to the Bond Trustee. The Servicer must make the payment to the Bond Trustee by wire transfer of same day funds on or before the 5th Bond Business Day before the day on which the bond payment is due to be made by the Bond Trustee to the bondholders. Bond Business Day is determined under the Bond Indenture for each separate Bond transaction.

2. **Direct Pay Execution**

   For direct pay executions, the Servicer must perform the following:

   a. The Servicer must pay to the Bond Trustee, by wire transfer of same day funds on the Bond Payment Date, the following components of the Scheduled Payment:

   (1) the PRF deposit;

   (2) the periodic fees payable to the Issuer, Bond Trustee, Rebate Analyst, any Compliance Monitor, Remarketing Agent and Tender Agent and any other similar person; and

   (3) any other requirement, as specified in the
Reimbursement Agreement.

b. The Servicer must remit the following components of the Scheduled Payment to Fannie Mae in reimbursement of any related Advance under the credit enhancement as provided in this Section:

(1) the interest component; and

(2) any principal component which is to amortize immediately the Mortgage Loan and is not to be deposited into the PRF.

c. For Direct Pay Weekly Variable Rate transactions where the Borrower is obligated to make its payments 2 Business Days prior to the 15th of each month and the bondholders must be paid on the 15th of each month, the Servicer must make its payments by wire transfer of same day funds on the 1st or 15th calendar day of each month. Other requirements may apply, as specified in the Reimbursement Agreement.

216.02B Replenishment of Withdrawals from the PRF

If the Borrower pays the Servicer any amount to replenish a withdrawal from the PRF, the Servicer shall pay such amount to the Bond Trustee not later than 2:00 p.m. Eastern Time, no later than the Business Day immediately after receipt of such monies from the Borrower.

216.02C Collection and Remittance of Borrower Reimbursement Obligations for Fannie Mae Advances

The Servicer must pay the following amounts to Fannie Mae:

1. The interest component of the Scheduled Payment and principal component of the Scheduled Payment which is to amortize immediately the Mortgage Loan and is not to be deposited into the PRF. Such amounts reimburse Fannie Mae for the related Advance under a Credit Enhancement Instrument or Collateral Agreement.

2. Any accrued and unpaid Activity Fee.

3. Any other amounts due to Fannie Mae under the Reimbursement Agreement other than the Facility Fee.

Fannie Mae will draft such amounts so as to be received by Fannie Mae no later than the Business Day immediately after the receipt of such monies from the Borrower.

The Servicer must also collect from the Borrower and remit to Fannie Mae any other fees, expenses or additional costs due from the Borrower to Fannie Mae under the Reimbursement Agreement. Fannie Mae and/or the Bond Trustee will notify the Servicer regarding any such amounts to be invoiced by the Servicer for payment by the Borrower under the Reimbursement Agreement, the Financing Agreement or other Transaction
216.02D  Monthly Remittance of Fees to Fannie Mae

Fannie Mae will draft the Facility Fee, net of the Servicer’s Servicing Fee each month. Fannie Mae will draft such amounts 4 calendar days after such amount is scheduled to be paid by the Borrower under the applicable Transaction Document. If the fourth calendar day is not a Business Day, then such draft will be made on the next Business Day.

216.02E  Notice and Collection of Other Fees and Expenses

At the written request of the Bond Trustee or if the Reimbursement Agreement or the Financing Agreement requires the Borrower to make such payments through the Servicer, the Servicer will invoice the Borrower for any fees and expenses payable by the Borrower to the (1) Issuer, (2) Bond Trustee, (3) Rating Agency, (4) Remarketing Agent, (5) Rebate Analyst, (6) Compliance Monitor or (7) Custodian.

The Servicer’s invoice must require the Borrower to pay all such amounts to the Servicer not later than the earlier of ten days following the receipt of the invoice or the Business Day such amounts become due. The Servicer will remit all such payments received from the Borrower to the Bond Trustee, the Rating Agency, or Custodian, as applicable, and, if to the Rating Agency or Custodian, with notice to the Bond Trustee of such payment.

216.03  Prepayments – General Introduction

When a Borrower prepays a Mortgage Loan in a DUS Bond Credit Enhancement in whole or in part, the bonds also will be prepaid or redeemed in whole or in part on a corresponding basis. This is the starting point for the analysis of the obligations of the Borrower to account for any fees payable on account of the prepayment or redemption.

216.03A  Bond Redemption Premiums Payable to Bondholders

All relevant rules regarding bond redemption premiums will be contained in the related Bond Indenture. The Borrower is obligated to pay any bond redemption premium. Fannie Mae does not provide credit enhancement for the bond redemption premium.

Not all types of bond redemptions are subject to redemption premiums and the Servicer must consult the related Bond Indenture documentation to determine whether a redemption premium is due. As a general rule, only bond redemptions initiated voluntarily or optionally by the Borrower will potentially have a redemption premium. Mandatory redemptions almost never have a redemption premium. Mandatory redemptions include redemptions paid from condemnation proceeds and insurance proceeds from casualty losses.
1. Variable Rate Bond Redemption

Weekly variable rate bonds may typically be redeemed at any time, or at least on any bond interest payment date, without restriction or redemption premium to the bondholders subject to the terms of the related Bond Indenture.

2. Fixed Rate Bond Redemption

Fixed rate bonds are typically restricted from optional or voluntary redemption by the Borrower for a specific period following the original bond issuance date, known as a lockout period. A lockout period may approximate 10 years from the initial bond issuance. Following the expiration of the lockout period, any voluntary redemption during the subsequent 3 to 5 year period typically requires the payment of a redemption premium to bondholders.

**NOTE:** Most transactions require the Borrower to pay the bond redemption premium with money that is not subject to being treated as a voidable preference under applicable bankruptcy and insolvency laws. This usually means the redemption premium cannot come from regular resources of the Borrower. The Bond Indenture must be consulted for requirements applicable to sources of payment of the Bond Redemption Premium and legal counsel should be consulted.

216.03B Termination Fee or Prepayment Premium Payable to Fannie Mae

Any Prepayment Premium payable to Fannie Mae on the credit enhancement is separate and distinct from any redemption premium payable to bondholders. This is true for all executions: Direct Pay, Standby and MBS.

In most instances, Fannie Mae requires the Borrower to pay a Prepayment Premium (or “Termination Fee” if required in the applicable documents) if the prepayment occurs within a certain number of years after original delivery of Fannie Mae’s credit enhancement. In earlier Bond Credit Enhancement transactions, the premium will be called a Prepayment Premium and will be addressed in the Note. In later transactions, the premium will be called a Termination Fee and will be addressed in the Reimbursement Agreement.

216.03C Termination When No Prepayment Occurs; Weekly Variable Rate Transactions

In DUS Variable Rate Credit Enhancements, there is the possibility that neither the Mortgage Loan nor the bonds are actually being prepaid, but only that the Borrower is replacing Fannie Mae as the provider of the credit enhancement and liquidity, terminating Fannie Mae’s involvement in the transaction. For purposes of this section, that too is treated as a prepayment. In the event that the Mortgage Loan is being prepaid or Fannie Mae is being replaced as credit enhancer, the result is that the credit
enhancement is being terminated. In recent years, to take this into account, the general term “Termination” has been used to refer to the events and “Termination Fee” to refer to the fee which may be payable on account of those events.

The Servicer must remit any Termination Fee due Fannie Mae in accordance with remittance requirements contained below in this Section by 2:00 p.m. Eastern Time on the next Business Day following the day on which the Borrower’s termination of Fannie Mae’s credit enhancement and liquidity is effective.

### 216.04 Prepayments – Processing

#### 216.04A General

The Note requires the Borrower to give advance notice of a full or partial prepayment to the Servicer, the Bond Trustee, and, if a DUS Variable Rate Credit Enhancement, the Remarketing Agent. Any partial prepayment must be in an amount corresponding to an authorized denomination of the Bonds. Typically, Fannie Mae will require its consent to an optional redemption of Bonds.

The Servicer must always keep in mind that the date on which the Borrower must transfer money to the Servicer to initiate a prepayment may not be the day that the transfer of funds is treated as a prepayment under the governing documents. For example, under some documents the Borrower must make the prepayment not later than the last Business Day before the day the Bond Trustee, under the Bond Indenture, must have received funds for redemption of the Bonds. The Mortgage Loan prepayment will not be recognized until the Bonds are actually redeemed or deemed paid and no longer under the requirements of the Bond Indenture.

#### 216.04B Prompt Notice of Intended Prepayment

The Servicer must promptly notify Fannie Mae (Multifamily Asset Management) and the Bond Trustee in writing upon receiving notice from the Borrower of a planned prepayment. If the prepayment does not occur on such date, the Borrower may not subsequently prepay the Mortgage Loan in full without first giving the Servicer and all other parties to whom notice is required, a new notice of intent to prepay in accordance with the Loan Documents.

#### 216.04C Critical Path Due Dates

The Servicer must ensure that the final prepayment amount quoted to the Borrower prior to prepayment is correct. Accordingly, before the Servicer advises the Borrower of the final prepayment amount, the Servicer must verify such amount with the Bond Trustee and Fannie Mae.
1. No less than 10 days prior to the scheduled prepayment date, the Servicer must obtain the Bond Trustee's written confirmation of all amounts due and payable in connection with the prepayment.

2. No less than 10 days prior to the scheduled prepayment date, and after verifying amounts due on the Bonds with the Bond Trustee, the Servicer must request verification of the full or partial prepayment amount from Fannie Mae.

3. No less than 5 days prior to the day the Borrower is required to initiate the prepayment, the Servicer must advise the Borrower in writing of the full amount necessary to make the prepayment.

**NOTE:** The day the Borrower is required to initiate the prepayment will be before the day the Bonds are to be redeemed.

4. For weekly variable rate bonds, immediately following the last day on which interest is determined on the Bonds before the scheduled redemption date of the bonds, the Servicer must re-verify the amount the Borrower must pay for the prepayment. The Servicer must immediately advise the Borrower of any correction required by the re-verification.

The Servicer should note that the transaction documents do not uniformly address the redemption premium, if any, payable to Bondholders and Prepayment Premium or termination fee, if any, payable to Fannie Mae on account of a prepayment of the Mortgage Loan. In some instances, the fee maintenance Prepayment Premium set out in the Note will be payable to Fannie Mae. In other instances, the Prepayment Premium payable under the Note must be remitted to the Bond Trustee for payment to bondholders as a redemption premium. In this case, the Borrower may be required to pay a Termination Fee to Fannie Mae pursuant to the Reimbursement Agreement. The Servicer must be alert to these requirements.

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**216.04D Fannie Mae’s Confirmation Required**

To obtain Fannie Mae’s confirmation of the prepayment amount, the Servicer must submit a statement detailing the following:

1. the Fannie Mae Mortgage Loan number(s) and bond number(s), the Property name and address and the expected prepayment date;

2. all amounts that it has determined (and for such amounts due the Bondholders, confirmed with the Bond Trustee) will be due and payable by the Borrower on the prepayment date, including:

   (a) the full or partial principal prepayment (as of the prepayment date) of the Note, separately specifying any amounts in the PRF expected to be applied to principal;

   (b) accrued interest up to but not including the date of prepayment of the Note;

   (c) any unpaid late fees (if applicable);
(d) any Prepayment Premium or Termination Fee required to be paid to the Bondholders or Fannie Mae, respectively, under the terms of the Note, the Financing Agreement, the Indenture or the Bonds;

(e) any termination fee payable to Fannie Mae pursuant to the Reimbursement Agreement;

(f) any other amounts due under the Loan Documents; and

(g) all other amounts due upon a redemption of Bonds under the Bond Documents, including any interest required to cover the gap between Mortgage Loan and Bond prepayment for which an escrow or collateral is not already provided. (The Servicer must request this information from the Bond Trustee.)

3. written confirmation from the Bond Trustee of all amounts due the Bondholders.

4. all amounts that will be due and payable to Fannie Mae on the day as required by this Section following prepayment, including:

(a) Credit Enhancement Fee and Liquidity Fee;

(b) any previously unpaid fees or other amounts owed to Fannie Mae; and

(c) any applicable Prepayment Premium or Termination Fee that is due, broken down into the portions due to the Servicer and Fannie Mae.

The Prepayment Premium or Termination Fee is a percentage (as specified in the Note or Reimbursement Agreement) multiplied by the UPB of the Mortgage Loan after crediting the scheduled payment due on the date regular mortgage loan payments are due (in some transactions, the first of the month and in others, the 15th of the month) in which a prepayment takes place.

Fannie Mae’s share of the Prepayment Premium or Termination Fee will be a percentage determined by dividing the sum of the Credit Facility Fee and the Liquidity Fee by the sum of the Credit Facility Fee, Liquidity Fee and the Servicing Fee.

No Prepayment Premium or Termination Fee is due in connection with an application of insurance proceeds or condemnation awards, a monthly deposit to the PRF, a redemption of Bonds from amounts transferred from the PRF to a redemption account, a reduction and amortization of the Mortgage Loan as a result of a Bond redemption, or an adjustment to a Reset Rate or a Fixed Rate.

For New Construction/Substantial Rehabilitation Mortgage Loans, other prepayment criteria may apply depending on the transaction structure. Fannie Mae is not responsible for confirming any amounts owed to
the Servicer at the time of the prepayment (e.g., any administrative fees due for services performed by the Servicer under a Collateral Agreement); however, the Servicer’s payoff statement should clearly denote any such amounts so that Fannie Mae can distinguish them from amounts due exclusively to Fannie Mae and the Bond Trustee.

Fannie Mae will review the Servicer’s figures and contact the Servicer to reconcile any discrepancies. Upon completion of its review and any necessary reconciliation, Fannie Mae will respond to the Servicer’s verification request in writing. In its response, Fannie Mae will confirm the total payoff amount due to the Servicer from the Borrower, and will also separately confirm the amounts due to Fannie Mae from the Servicer, as well as individual items comprising such total amounts.

It is the Servicer’s responsibility to prepare lien release documentation.

### 216.05 Prepayments: Prepayment Reporting

The Servicer must report the prepayment amount, including any applicable Prepayment Premium or Termination Fee due Fannie Mae and/or any redemption premium due the bondholders, to Fannie Mae in accordance with the reporting requirements contained in Part V, Chapter 2: Reporting and Remitting, Section 216.01: Monthly Bond Credit Enhancement Reporting. The date the report is due depends on the execution type of the underlying transaction.

1. If the Mortgage Loan payments are due on the first of the month, the report is due on the fourth calendar day of the month in which the prepayment occurs, or the next Business Day if the fourth is not a Business Day.

2. If the Mortgage Loan payments are due on the 15th of the month, the report is due on the 15th of the month or the next Business Day if such day is not a Business Day.

### 216.06 Prepayments: Remittances

The Servicer must remit any Prepayment Premium and/or Termination Fee due Fannie Mae by 2:00 p.m. Eastern Time, on the next Business Day following the day on which the Borrower’s prepayment is received.

Depending on the execution and transaction type, the Servicer must also be concerned with invoicing, collecting and remitting the principal amount of the Mortgage Loan to be prepaid. In all cases, the Servicer must invoice and collect the principal amount being prepaid from the Borrower. No prepayment of Direct Pay Facilities will be allowed until Fannie Mae receives the necessary funds from the Borrower.
Any prepayment of principal on any Mortgage Loan received by the Servicer shall be paid, as follows:

1. **Standby Execution**: Prepayments shall be remitted to the Bond Trustee not later than the Bond Business Day immediately after the date of receipt such funds by the Servicer; or

2. **Direct Pay Execution**: Prepayments shall be remitted to Fannie Mae on the same day as the Fannie Mae Advance to the Bond Trustee funding the corresponding bond redemption associated with the prepayment.

### 216.07 Reporting on Delinquency Status

The Servicer must electronically submit to Fannie Mae using the Multifamily Delinquency Early Warning System (DEWS), or any successor system selected by Fannie Mae to do such reporting, the monthly delinquency status of the Mortgage Loan on the 17th calendar day of the month. If the 15th falls on a holiday or weekend, the System is available the next Business Day. The Servicer must plan around this one day window period for the purpose of reporting delinquencies. This rule applies to all execution and transaction types for DUS Bond Credit Enhancement.

### Section 217 Mezzanine Loan Reporting and Remitting

**NOTE**: Except as otherwise required below, the reporting and remitting requirements for Cash Mortgage Loans provided in this Chapter apply to Mezzanine Loans.

### 217.01 Remitting DUS Plus Mezzanine Loans

For the DUS Plus Mezzanine Loan, the Servicer is required to remit to Fannie Mae via the Cash Remittance System. On each remittance date the amount representing P&I (adjusted to the Pass-Through Rate) actually collected from the Mezzanine Borrower must be remitted. The initial remittance date for any DUS Plus Mezzanine Loan is the 18th day of the month following the month in which the DUS Plus Mezzanine Loan is purchased, with monthly remittances due on the 18th day of each month thereafter.

For each DUS Plus Mezzanine Loan, the principal distribution amount remitted must include the sum of:

- the principal portion actually collected from the Mezzanine Borrower of the monthly installment due during the period beginning on the second day of the month preceding the month in which a remittance date occurs and ending on the first day of the month in which a remittance date occurs; and

- any unscheduled principal recovery collected on a DUS Plus Mezzanine Loan during the month preceding the month in
which a remittance date occurs.

The interest distribution amount remitted includes the interest portion of the monthly installment (that portion actually collected from the Mezzanine Borrower), adjusted to the Pass-Through Rate, due on the first day of the month in which a remittance date occurs or due at any time (other than the first day) during the preceding month.

The Servicer must remit funds collected from the Mezzanine Borrower even if they do not represent a full payment. The Servicer may not deduct monthly Servicing Fees until the entire monthly payment has been collected from the Mezzanine Borrower.

The Servicer is not required to remit to Fannie Mae on the remittance date any amounts representing P&I that have not been received from the Mezzanine Borrower and are, therefore, delinquent. Any delinquent payment received after the 18th calendar day of the month in which it is due must be remitted to Fannie Mae by 1:00 p.m. ET within 24 hours of its receipt.

**217.02 Payoffs**

For DUS Plus Mezzanine Loans, proceeds for payments-in-full, including any applicable repayment fees, must be remitted directly to the mezzanine investor within 24 hours after receipt by the DUS Servicer. The full payment must be reported to Fannie Mae by the second Business Day of the month following the month in which the prepayment is received in accordance with Part V of this Guide.

**Section 218 Defeasance**

**218.01 Mortgage Loan Documents Must Permit Defeasance**

A Borrower may elect to defease its Mortgage Loan only if the Loan Documents permit defeasance. If the Borrower’s Mortgage Loan Documents do not permit defeasance, defeasance of the Mortgage Loan is not permitted.

**218.02 Borrower’s Election to Defease**

Prior to the Mortgage Loan’s Maturity Date and during the Mortgage Loan’s Defeasance Period, the Borrower may defease the entire outstanding balance of the Mortgage Loan in accordance with the applicable terms and conditions of the Borrower’s Loan Documents and the provisions of this Section.

**218.03 Defeasance Option Procedures**
To accomplish the defeasance, the following procedures must be followed:

### 218.03A Defeasance Documents

Servicer must obtain the most current Defeasance documents from the Fannie Mae website. The Defeasance documents consist of the Defeasance Notice (Form 4622) and other closing documents required by Fannie Mae in order for the defeasance to occur.

### 218.03B Defeasance Notice

The Servicer must complete the Defeasance Notice (Form 4622) after verifying the Mortgage Loan is eligible for defeasance and obtaining from the Borrower the date on which the Borrower desires to consummate the Defeasance. The Defeasance Close Date may not be more than 45 calendar days nor less than 30 calendar days after the date on which the Defeasance Notice is received by the Servicer. The Servicer must use the Defeasance Calculator application on the Fannie Mae web site to estimate the Defeasance Deposit and the estimated Defeasance Deposit must be inserted in the appropriate box in the Defeasance Notice. The information on the Defeasance Notice will not be final until it is confirmed by Fannie Mae. Until then, the Defeasance Deposit and other information are estimates. The Defeasance Notice will specify (a) whether a Fannie Mae debt instrument will be offered for use as the substitute collateral and, if not, that U.S. Treasury Securities will be the substitute collateral; and (b) whether the successor entity will be designated by Fannie Mae or Borrower, and (c) the amount of the Defeasance Commitment Fee.

To be effective, the Borrower must execute and send the Defeasance Notice to the Servicer so that the Servicer receives the Defeasance Notice no earlier than 11:00 a.m. and no later than 3:00 p.m. ET on a Business Day.

The Servicer must then sign and execute the Defeasance Notice and fax the Defeasance Notice and a copy of the Note to be defeased to its Fannie Mae Representative.

Fannie Mae must receive the fax by 5:00 p.m. ET on the same day that the Defeasance Deposit was calculated for verification by Fannie Mae.

### 218.03C Defeasance Commitment Fee

A Defeasance Commitment Fee equal to 1% of the scheduled balance of the Mortgage Loan as of the Defeasance Close Date, must be paid by the Borrower to the Servicer no later than the date and time when the Servicer receives the executed Defeasance Notice from the Borrower. The Servicer must wire the Defeasance Commitment Fee to Fannie Mae within 24 hours after receipt of the Borrower's executed Defeasance Notice.
**218.03D Verification of the Defeasance Notice**

Fannie Mae will verify the Mortgage Loan information contained in the Defeasance Notice as well as the Mortgage Loan’s eligibility for defeasance. After verification and within two (2) Business Days after the initial receipt of the Defeasance Notice from the Servicer, Fannie Mae will sign the Defeasance Notice and fax it back to the Servicer along with an Exhibit that details the monthly cash flows of the Fannie Mae debt instrument that will replace the Property as collateral for the Mortgage Loan.

The Servicer will then fax the verified Defeasance Notice to the Borrower on the same day that the Servicer receives the verified Defeasance Notice from Fannie Mae. In the event that Fannie Mae made changes to the Defeasance Notice, the Borrower must initial the changed portions of the Defeasance Notice and fax it back to the Servicer on that same day. The Servicer must then immediately fax the Borrower-initialed Defeasance Notice to Fannie Mae.

If the Servicer does not

- receive the Defeasance Commitment Fee, and
- provide confirmation of the Defeasance Notice to the Borrower,

then the Borrower's right to obtain Defeasance pursuant to that Defeasance Notice shall terminate. If the Borrower still wishes to defease the Mortgage Loan, the Borrower must submit a new Defeasance Notice and repeat the process outlined above.

**218.03E Substitute Collateral**

On or before the Defeasance Close Date, the Borrower must deliver to the Servicer a Defeasance Pledge Agreement (Form 4529), creating a perfected security interest in the substitute collateral in favor of Fannie Mae.

**218.03F Assignment and Assumption**

The Borrower must assign all its obligations and rights under the Note, together with the substitute collateral, to a successor entity designated by Fannie Mae or, if not so designated by Fannie Mae, designated by Borrower and acceptable to Fannie Mae. The Borrower and the successor entity shall execute and deliver to the Servicer a Defeasance Assignment and Assumption Agreement (Form 4528).

**218.03G Closing Documents**

The Servicer must deliver to Fannie Mae by no later than 10 a.m. ET, five (5) Business Days before the Defeasance Close Date, the following documents:
- a Borrower's Counsel Opinion Letter (Form 6618) affirming:
  - that each Defeasance Document constitutes the valid and legally binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms;
  - that the defeasance is not subject to avoidance under any applicable federal or state laws;
  - that, if the Note is held by a REMIC Trust, then the defeasance has been effected in such a way that does not adversely affect the REMIC Trust; and
  - such other opinions, certificates, documents or instruments as Servicer may reasonably request;

- the Defeasance Assignment and Assumption Agreement (Form 4528); and

- the Defeasance Pledge Agreement (Form 4529).

Transmittal of these documents shall be accompanied by a completed Multifamily Defeasance Transmittal Form (Form 4631).

218.03H Amounts Payable by Borrower

On or before the Defeasance Close Date, the Borrower must pay to the Servicer an amount equal to the sum of:

- the next scheduled P&I payment due under the Note;

- all other sums then due and payable under the Note, the Security Instrument and any other Loan Document; and

- all costs and expenses incurred by the Servicer in connection with the defeasance, including any out-of-pocket fees and disbursements of the Servicer's legal counsel.

218.03I Defeasance Deposit

If a Fannie Mae investment security will be the substitute collateral, then, on or before 3:00 p.m. ET on the Defeasance Close Date, the Borrower must pay the Defeasance Deposit (reduced by the Defeasance Commitment Fee) to the Servicer to be used by the Servicer, as the Borrower's agent, to purchase the Fannie Mae Investment Security.

The Borrower or Closing Agent must wire the Defeasance Deposit to Servicer by 3:00 p.m. ET on the Defeasance Closing Date. The Servicer must wire the Defeasance Deposit (reduced by the Defeasance Commitment Fee) to Fannie Mae for receipt by 5:00 p.m. ET on the Defeasance Closing Date.
218.03J Release

Upon the Borrower's compliance with the Defeasance requirements, the Property will be released from the lien of the Security Instrument. Upon release of the Property, the Note will be secured by the pledge of the Substitute Collateral.

218.03K Fannie Mae Security Liquidated Damages

If the Borrower timely pays the Defeasance Commitment Fee and the Servicer and the Borrower timely transmit a signed facsimile copy of the Defeasance Notice, but the Borrower fails to consummate the defeasance, Fannie Mae shall have the right to retain the Defeasance Commitment Fee as liquidated damages for the Borrower's default and, subject to the terms and conditions of the Note, the Borrower shall be released from all further obligation to defease the Note under the given Defeasance Notice.

218.03L Third-Party Costs

In the event that the Defeasance is not consummated on the Defeasance Closing Date for any reason, the Borrower must reimburse the Servicer for all third-party costs and expenses incurred by the Servicer in its reliance on the Defeasance Notice executed by the Borrower, within five (5) Business Days after the Borrower receives a written demand for this reimbursement.

218.03M Post Defeasance Closing Date

Fannie Mae will transfer the defeased Mortgage Loan from the Servicer's servicing portfolio effective on the first day of the second month following the Defeasance Closing Date. The Servicer will be required to report and remit payments for the next scheduled P&I payment collected as part of the Defeasance Closing. Thereafter, the Servicer will no longer be required to perform other servicing requirements for the defeased Mortgage Loan. Beginning on the 18th calendar day of the second calendar month after the Defeasance Closing Date (or the next Business Day if such day is not a Business Day) until the maturity of the Mortgage Loan, the Servicer will receive the remaining scheduled servicing fee for the Mortgage Loan minus five (5) basis points provided the Authorization for ACH Remittance (Form 4630) has been submitted.

Section 219 Delinquency Reporting and Certification

On the 17th calendar day of each month, Servicers must take the following actions with respect to Mortgage Loans:

- Report all delinquent Mortgage Loans to Fannie Mae using the Delinquency Early Warning System ("DEWS"), which Servicers
may access through the eServicing System. Delinquency reporting must include delinquencies for Mortgage Loans on Bond Credit Enhancements, even if the Servicer also elects to report these delinquencies through CESIR.

- Certify as to the delinquency status of all Mortgage Loans. If a Servicer’s Mortgage Loan portfolio does not include any delinquent Mortgage Loans, the Servicer must certify to that effect.

Prior to the 17th calendar day of each month, Servicers may use the “Preliminary” Case Status indicator to set up initial delinquency cases in DEWS.

On the 17th calendar day of each month, Servicers must change all "Preliminary" Case Status indicators to "Open" for all Mortgage Loans still delinquent or delete remaining initial cases for all Mortgage Loans that have cured. No “Preliminary” Case Status cases can remain as of the 17th calendar day of each month.

If the 17th calendar day of a month falls on a weekend or holiday, the Servicer must report and certify on the next Business Day.

Servicers must complete the “comments section” in each report with important additional information regarding the delinquent Mortgage Loan including, at a minimum, the following:

- the Servicer’s attempts to contact the delinquent Borrower;
- the cause for the missed payment(s);
- whether payment is expected before the end of the month;
- the likelihood of the Borrower making the next month’s payment;
- if the payment will not be made before the end of the month of default, whether the Borrower will voluntarily turn over the monthly net operating income of the Property;
- the willingness of the Borrower to work with the Servicer to resolve the delinquency; and
- whether the Mortgage Loan is being Special Serviced by Fannie Mae’s Special Asset Management (SAM) group (Primary Risk Mortgage Loans) or the Servicers’ Special Servicing group (Secondary Risk Mortgage Loans).

Servicers must update at least once per week all delinquency reports with an “Open” status indicator.

Section 220 Reporting Collateral Balances in Custodial Accounts
Servicers must report, on a quarterly basis, the balances of Mortgage Loan collateral held by Servicers in their Custodial Accounts using Collateral Submission Report (Form 4813). Collateral balances that must be included in the quarterly reporting include balances for all Custodial Accounts whether the collateral is held as cash, securities or letters of credit.

### 220.01 P&I Custodial Accounts

Except as noted in Part V, Chapter 2: Reporting and Remitting, Section 220.04: What to Report, balances in P&I Custodial Accounts are excluded from this reporting requirement.

### 220.02 Letters of Credit as Collateral

Balances for any original Letters of Credit held by the Servicer must be reported. Balances for any original Letter of Credit held by Fannie Mae are not required to be reported.

### 220.03 Report on Fair Value Basis

If the form of collateral is securities or Letters of Credit, Servicers must report the balances on a fair value basis (the price that would be received to sell an asset in a transaction between market participants).

### 220.04 What to Report

Collateral that must be reported using the Collateral Submission Report (Form 4813) includes:

- **Short Term**
  - any Replacement Reserves or repair escrows;
  - insurance proceeds held pending repair or damage to the Property; or
  - condemnation proceeds received in a condemnation action related to the Property.

- **Long Term**
  - any operating deficit or debt service reserve; or
  - NCF sweeps – to the extent NCF exceeds monthly P&I remitted to Fannie Mae in the ordinary course.

- **Balances in any T&I Custodial Account.**

- **Other**
  - any other escrow, collateral or achievement funds
governed by an agreement with the Borrower;
● any holdback of Mortgage Loan proceeds; or
● any tenant security deposits held by the Servicer.

220.05 When to Report

The Collateral Submission Report (Form 4813) must be submitted to Servicer’s Fannie Mae Representative within thirty (30) days after the end of each calendar quarter.

Section 221 Internal Revenue Service Reporting Requirements

221.01 What to Report

The Servicer must comply with Internal Revenue Service reporting requirements for:

- reporting the receipt of $600 or more of interest payments from any Borrower who is a natural person (IRS Form 1098);
- filing Statements for Recipients of Miscellaneous Income (IRS Form 1099-MISC) to report payments of fees and related expenses to attorneys and other third parties in connection with foreclosure or liquidation proceedings in connection with a Mortgage Loan and the related Property;
- filing notices of Acquisition or Abandonment of Secured Property (IRS Form 1099-A) to report the acquisition of a Property by foreclosure or acceptance of a deed-in-lieu or by a Borrower’s abandonment of a property; and
- filing notices of Cancellation of Debt (IRS Form 1099-C) to report the cancellation of any part of a Borrower’s indebtedness.

Should the Internal Revenue Service change the reporting requirements in connection with any of IRS Form 1098, IRS Form 1099-MISC, IRS Form 1099-A or IRS Form 1099-C, the Servicer must comply with those changed reporting requirements, notwithstanding anything to the contrary contained in this Chapter. The Servicer should contact Fannie Mae if it believes any portion of this Chapter to be in conflict with such Internal Revenue Service reporting requirements.

221.02 Filing IRS Form 1099 MISC

The Servicer must report all attorney (or trustee) fees paid by the Servicer to Servicer-retained attorneys or trustees or to Fannie Mae-retained
attorneys or trustees for handling foreclosure proceedings, by filing Form 1099-MISC (Miscellaneous Income) with the Internal Revenue Service and other parties. This form must be filed in the Servicer's name, using its Internal Revenue Service tax identification number.

If the Servicer pays for any expenses authorized by Fannie Mae for the maintenance, repair, or marketing of an REO Property, or when the Servicer pays directly any business that is not a corporation for recurring maintenance costs, minor repair costs, or routine costs in connection with an REO Property, the Servicer must report such payments to the Internal Revenue Service. To accomplish this, the Servicer must prepare an IRS Form 1099-MISC (Miscellaneous Income) for the appropriate tax year and submit it to the Internal Revenue Service and to the individual payee. This form must be filed in the Servicer's name, using its Internal Revenue Service taxpayer identification number.

221.03 Notifying the Internal Revenue Service about Abandonments or Acquisitions (IRS Form 1099-A)

221.03A When Required

The Internal Revenue Service requires that information returns be filed when Fannie Mae (or a third party) acquires an interest in a Property in full or partial satisfaction of the Mortgage Loan or when Fannie Mae or the Servicer has reason to know that a Property has been abandoned. The Servicer must file these notices on Fannie Mae's behalf, using IRS Form 1099-A (Acquisition or Abandonment of Secured Property), for all applicable Mortgage Loans (including Mortgage Loan participations if Fannie Mae's percentage ownership of such Mortgage Loan is 50% or greater).

The Servicer must satisfy the reporting requirements for the "owner of record" (instead of on Fannie Mae's behalf) when the Servicer purchased a delinquent Mortgage Loan from Fannie Mae before the Property was acquired by the Servicer in full or partial satisfaction of the Mortgage Loan.

For purposes of filing these reports:

- Fannie Mae (or the "owner of record") acquires an interest in the Property when any redemption period that follows a foreclosure sale ends without redemption rights being exercised (or when Fannie Mae accepts a deed-in-lieu of foreclosure);

- A third party acquires an interest in the Property at the foreclosure sale; and

- Abandonment occurs when Fannie Mae or the Servicer has "reason to know" from "all facts and circumstances concerning the status of the Property" that the Borrower intended to discard or has permanently discarded the Property from use.
The Servicer, however, will have an additional three months before its reporting obligation arises if the Servicer expects foreclosure proceedings to begin within the three months after determination that abandonment has occurred.

After an event that triggers a reporting requirement occurs, IRS Form 1099-A must be filed on or before February 28 (or March 31 if filing electronically) of the year following the calendar year in which the event occurred. The Servicer also must furnish the Borrower with an information statement on or before January 31 of that year. The requirement for notifying the Borrower can be satisfied by sending Copy B of a completed IRS Form 1099-A to the Borrower's last known address. When the form is filed on Fannie Mae's behalf, it must show Fannie Mae's name, address, and federal identification number (52-0883107), and include a legend stating that the information is being reported to the Internal Revenue Service. If it is filed by the Servicer on its own behalf or for the “owner of record,” the name, address, and identification number of the Servicer or owner of record, respectively, must be provided instead.

221.03B Preparing IRS Form 1099-A

The Servicer is responsible for completing the IRS Form 1099-A accurately, for filing it with the Internal Revenue Service, and for providing the information to the Borrower and to Fannie Mae by the required dates. If the Internal Revenue Service penalizes Fannie Mae because a Servicer failed to file a return or filed an incorrect return or late return, Fannie Mae will require the Servicer to reimburse Fannie Mae for any penalty fees the Internal Revenue Service assesses (unless the Servicer can document that it met the filing requirements).

Information that must be reported on IRS Form 1099-A includes:

- the Borrower's taxpayer identification number (the Social Security number if the borrower is a natural person);
- the date of acquisition of an interest in the Property or the date the Servicer acquired knowledge of the abandonment;
- the outstanding UPB of the Mortgage Loan;
- a general description of the Property; and
- whether the Borrower is personally liable for the debt and, if personally liable, the fair market value of the Property at the time of acquisition.

221.04 Notifying the Internal Revenue Service about Cancellations of Indebtedness (IRS Form 1099-C)
221.04A  When Required

The Internal Revenue Service requires certain mortgage holders, including Fannie Mae, to file information returns when $600 or more of a Mortgage Loan is cancelled. Except as provided in Part V, Chapter 2: Reporting and Remitting, Section 221.04D: Exceptions to IRS Form 1099-C Reporting, the Servicer must file these returns on Fannie Mae's behalf, using IRS Form 1099-C, for all applicable Mortgage Loans (including Mortgage Loan participations if Fannie Mae's percentage ownership of such Mortgage Loan is 50% or greater). If, in the same calendar year, a Mortgage Loan is canceled in connection with a foreclosure or abandonment of secured property, it is not necessary to file both Form 1099-A and Form 1099-C for the same Borrower. Only Form 1099-C need be filed, and the Form 1099-A filing requirement for the Borrower will be met by completing boxes 4, 5, and 7 on Form 1099-C.

221.04B  Determining When a Debt Is Cancelled

A debt is cancelled (in whole or part) when any of the following occur:

- discharge in bankruptcy under Title 11 of the U.S. Code;
- receivership, foreclosure, or similar federal or state court proceeding makes the debt unenforceable;
- the statute of limitations applicable to collecting the debt expires (if so determined by a court and any appeal period has expired), or expiration of the statutory period for filing a claim or beginning a deficiency judgment proceeding;
- foreclosure remedies by law end or bar Fannie Mae's right to collect the debt (e.g., foreclosure by exercise of the "power of sale" in the Security Instrument);
- probate or similar proceeding cancels or extinguishes the debt;
- Fannie Mae and the Borrower agree to cancel the debt at less than full consideration;
- a decision or defined policy of Fannie Mae causes collection activity to be discontinued and the debt to be cancelled; or
- expiration of a "non-payment testing period".

The Internal Revenue Service presumes that a debt is cancelled during a calendar year if no payment has been received on the Mortgage Loan during a period (the "non-payment testing period") of 36 months, plus the number of calendar months when collection activity was precluded by a stay in bankruptcy or similar bar under state or local law. The presumption may be rebutted, however, if there has been significant, bona fide collection
activity at any time during the calendar year, or if facts and circumstances, existing as of January 31 of the calendar year following expiration of the 36-month period, indicate that the indebtedness has not been discharged.

221.04C Preparing IRS Form 1099-C

The Servicer is responsible for completing the Cancellation of Debt (IRS Form 1099-C) accurately, and for filing it with the Internal Revenue Service and providing the information to the Borrower and to Fannie Mae by the required dates. The form must be filed on or before February 28 (or March 31 if filing electronically) of the year following the calendar year in which the discharge of indebtedness occurs.

If the Internal Revenue Service penalizes Fannie Mae because the Servicer failed to file a return or filed an incorrect or late return, Fannie Mae will require the Servicer to reimburse Fannie Mae for any penalty fees the Internal Revenue Service assesses (unless the Servicer can document that it met the filing requirements).

The Servicer also must furnish the Borrower with an information statement before January 31 of that year. The requirement for notifying the Borrower can be satisfied by sending Copy B of a completed IRS Form 1099-C (or a substitute statement that complies with Internal Revenue Service requirements for substitute forms) to the Borrower's last known address, and the Servicer must send Copy C to those states that require it. When the form is filed on Fannie Mae's behalf, it must show Fannie Mae's name as the “Creditor,” Fannie Mae's address and federal identification number (52-0883107), and include a legend identifying the statement as important tax information that is being furnished to the Internal Revenue Service.

Information that must be reported on IRS Form 1099-C includes:

- the Borrower's name, address, and taxpayer identification number (the Social Security number if the borrower is a natural person);
- the date the debt was cancelled;
- the amount of the cancelled debt, which does not include interest or any amount received in satisfaction of the debt from a foreclosure sale or other means;
- a description of the debt, such as “mortgage loan,” and a description of the Property if a combined IRS Form 1099-C and 1099-A is filed;
- whether the Borrower is personally liable for the debt;
- whether the debt was cancelled in bankruptcy; and
- the fair market value of the Property if a combined IRS Form
1099-C and 1099-A is filed.

If the cancelled Mortgage Loan had an original principal amount of $10,000 or more, was originated after 1994, and involves Borrowers who are jointly and severally liable for the debt, a separate information return for each Borrower must be filed, and each return must report the entire amount of the cancelled debt. If the Mortgage Loan was originated prior to January 1, 1995, or if the original principal amount of the cancelled Mortgage Loan was less than $10,000, and if there are multiple Borrowers, reporting is required only with respect to the primary (or first-named) Borrower. In addition, only one information return is required, regardless of the origination date or the original principal amount, if the Servicer knows, or has reason to know, that co-Borrowers were husband and wife living at the same address when the Mortgage Loan was originated, and does not know or have reason to know that such circumstances have changed when the Mortgage Loan is cancelled.

221.04D Exceptions to IRS Form 1099-C Reporting

**Interest.** Interest need not be reported. If it is reported as part of the cancelled debt, the IRS Form 1099-C instructions require that it be shown in a separate box on the form.

**Non-principal amounts.** Cancellation of amounts other than stated principal, including penalties, fines, fees, and administrative costs charged to the Borrower, need not be reported.

**Release of a co-Borrower.** IRS Form 1099-C need not be filed when one Borrower is released from a Mortgage Loan as long as the remaining Borrowers are liable for the full UPB of the Mortgage Loan.

**Guarantor or surety.** A guarantor or surety (i.e., any Guarantor or Key Principal executing a Non-Recourse Guaranty or a Payment Guaranty) is not a Borrower for purposes of the debt cancellation reporting requirements, so IRS Form 1099-C is never required.

221.04E Coordination with Reporting Abandonments or Acquisitions

If, in the same calendar year, the Mortgage Loan is cancelled in connection with the acquisition or abandonment of the same Property securing the Mortgage Loan, filing a timely and accurate IRS Form 1099-C will satisfy the requirement to file an IRS Form 1099-A.

221.05 Reporting via Magnetic Media

The Servicer must report IRS Forms 1099-C and 1099-A information on magnetic media and must do so on Fannie Mae’s behalf. Even though the Servicer reports to the Internal Revenue Service on magnetic media, it is still responsible for providing a hard copy of the IRS
Forms 1099-C or 1099-A, as applicable, to the Borrower (Copy B) and to those states that require it (Copy C). Copy B must be sent to the Borrower no later than January 31.

The Servicer must review each Borrower’s Form W-9 for validity and request a new Form W-9 if any form is invalid. A valid W-9 will include the Borrower’s name, tax identification number, date, and signature. In preparing Forms 1099-C or 1099-A, the Servicer must (i) utilize the IRS TIN Matching program and perform tax identification number matching for all United States non-exempt Borrowers in all circumstances, (ii) notify Fannie Mae of any Borrower that is identified as an unsuccessful TIN Match prior to preparing Form 1099, and (iii) follow up with any Borrower whose name and tax identification number combination fail the IRS TIN Match. The Servicer should also provide to Fannie Mae its TCC (Transmittal Control Code) at the beginning of each year, which will allow Fannie Mae to communicate to the Servicer any errors on its 1099 filings.

The Servicer does not need to send Fannie Mae a copy of the magnetic media filed by the Servicer with the Internal Revenue Service. However, to ensure that Fannie Mae can identify the Servicer and the loan number for a specific Mortgage Loan should the Internal Revenue Service contact Fannie Mae for additional information or clarification, the Servicer must:

- insert the following header information when the IRS Form 1099-C or 1099-A, as applicable, is filed on Fannie Mae's behalf:
  - Fannie Mae on the first “Payer” line; and
  - the Fannie Mae loan number for the related Mortgage Loan on the line for the “Payer’s account number for Payee”; and

- within thirty (30) days after filing with the Internal Revenue Service, send an email to Fannie Mae at multifamily_1099_reporting@fanniemae.com, containing a summary of IRS Forms 1099-C or 1099-A, as applicable, to notify Fannie Mae what the Servicer reported to the Internal Revenue Service on magnetic media.
Chapter 3  Custodial Accounts

Section 301  Generally

301.01  Maintenance

☑ Requirements

For all funds collected per the Loan Documents, you must:

☑ establish and maintain the following per this Chapter:
  ☑ P&I Custodial Accounts;
  ☑ T&I Custodial Accounts; and
  ☑ Collateral Agreement Custodial Accounts; and

☑ maintain strict control of all funds in your custody.

🌿 Operating Procedures

You must maintain all accounts and related records:

☑ for all
  ☑ Custodial Accounts,
  ☑ Drafting Accounts, and
  ☑ Clearing Accounts;

☑ using sound accounting and cash management practices; and

☑ enabling Fannie Mae to audit them at any time.

301.02  Fannie Mae's Rights

☑ Requirements

Fannie Mae has a security interest in all Mortgage Loan Custodial Accounts and may require you to:

☑ transfer funds from an institution (even if it is an Eligible Depository) into another Eligible Depository;

☑ move funds to a trust account;

☑ ensure funds are fully insured with the FDIC, NCUSIF, or other acceptable governmental insurer or guarantor;
remit more frequently while allowing funds to remain in the existing Custodial Account; and

take other actions based on risks, account size, and other factors.

### 301.03 Eligible Depositories and Ratings

#### 301.03A Eligible Depository

**Requirements**

You must ensure all Custodial Accounts are demand deposit or money market accounts maintained at an Eligible Depository. An Eligible Depository is:

- a Federal Reserve Bank;
- a Federal Home Loan Bank; or
- depository institution if it complies with the following.

<table>
<thead>
<tr>
<th>Depository Institution...</th>
<th>Must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts</td>
<td>Be insured by the</td>
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<tr>
<td></td>
<td>• Federal Deposit Insurance Corporation, or</td>
</tr>
<tr>
<td></td>
<td>• National Credit Union Share Insurance Fund.</td>
</tr>
<tr>
<td>Rating</td>
<td>Have an applicable Federal or State rating of</td>
</tr>
<tr>
<td></td>
<td>• well capitalized, or</td>
</tr>
<tr>
<td></td>
<td>• if unrated, meet the capital requirements for a well capitalized rating.</td>
</tr>
</tbody>
</table>
## Depository Institution...

### Minimum Financial Ratings for Assets $20 Billion or More

- If rated by both S&P and Moodys, meet all of the following:
  - for S&P:
    - an A-2 short-term issuer rating; and
    - a BBB long-term issuer rating; and
  - for Moodys:
    - a P-3 short-term bank deposit rating; and
    - a Baa2 long-term bank deposit rating.

- If only rated by S&P, have:
  - an A-2 short-term issuer rating; and
  - a BBB long-term issuer rating.

- If only rated by Moodys, have:
  - a P-3 short-term bank deposit rating; and
  - a Baa2 long-term bank deposit rating.

### Minimum Financial Ratings for Assets Less than $20 Billion

Meet at least 1 of the following:

- For S&P:
  - an A-2 short-term issuer rating; and
  - a BBB long-term issuer rating.

- For Moodys:
  - a P-3 short-term bank deposit rating; and
  - a Baa2 long-term bank deposit rating.

- For IDC Financial Publishing, Inc., or its successor, a 175.
- For Kroll Bond Rating Agency, Inc., or its successor, a C+.

### Operating Procedures

You may establish the account within your own institution if you

- are an Eligible Depository, and
- do not use your general ledger or internal operating account for Custodial...
Accounts.

301.03B Verifying Depository Ratings

Requirements

You must monitor the financial viability of custodial fund depositories.

If a depository or its holding company does not meet the Eligible Depository ratings per Part V, Chapter 3: Custodial Accounts, Section 301.03A: Eligible Depository, you must transfer the Custodial Account to an Eligible Depository within 30 days.

Operating Procedures

To determine an Eligible Depository:

- use the most recent financial ratings issued within the past 3 months; and
- confirm the ratings every 3 months.

301.04 Investments and Interest

Requirements

You must:

- comply with the interest-bearing requirements per the Loan Documents when establishing accounts;
- not invest Custodial Account funds, other than typical demand deposit or money market account earnings (e.g., interest); and
- when required by law or the Loan Documents, pay the Borrower Custodial Account earnings.

Operating Procedures

You may establish interest-bearing Custodial Accounts if:

- they comply with all applicable local, state, and federal laws and regulations regarding Borrower funds;
- funds can be withdrawn on demand without prior notice; and
- either
  - there is no early withdrawal penalty, or
  - the number of withdrawals is limited, but you are responsible for any
excess withdrawal penalties.

 Guidance

You may retain any Custodial Account earnings you are not required to pay the Borrower.

### 301.05 Clearing Accounts

**Requirements**

You must:

- not use any Custodial Account as a Clearing Account; and
- establish a Clearing Account per Part V, Chapter 3: Custodial Accounts, Section 306: Clearing Accounts if deposits and disbursements cannot be made directly to or from the Custodial Accounts.

### 301.06 Liability

#### 301.06A Losses

**Requirements**

You are responsible for any:

- Custodial Account losses; and
- damages Fannie Mae suffers due to funding delays, even if you complied with the Guide.

If you incur losses, Fannie Mae will not:

- reimburse them; or
- include them in any Mortgage Loan loss sharing calculation.

#### 301.06B Overdrafts

**Requirements**

You must ensure a Custodial Account is never overdrawn.

Operating Procedures
If an overdraft occurs, you must advance your own funds within 1 Business Day to cure the overdraft.

Section 302 Administration

302.01 Notifications

**Operating Procedures**

Within 30 days of opening or closing a Custodial Account, or changing the Eligible Depository or Custodial Account information:

**Step 1:** You and the depository institution must execute the applicable:

- Letter of Authorization for Multifamily P&I Custodial Account *(Form 2050)*;
- Letter of Authorization for Multifamily T&I Custodial Account *(Form 2052)*; or
- Letter of Authorization for Multifamily Collateral Agreement Custodial Account *(Form 2051)*.

**Step 2:** You must submit the executed document per the form’s instructions.

302.02 Titling

**Operating Procedures**

You must:

- Ensure all Custodial Accounts are titled:

  [You], as agent, trustee, and/or bailee for Fannie Mae and/or payments of various mortgagors and/or various owners of interests in mortgage-backed securities *(Custodial Account)*.

- Submit:
  - a copy of a
    - signature card,
    - bank statement, or
    - system generated screen print; and
  - the applicable Letter of Authorization per Part V, Chapter 3: Custodial Accounts, Section 302.01: Notifications.
302.03  Deposits

☑ Requirements

You must deposit any funds no later than the second Business Day (including any time funds are in a Clearing Account or general ledger account) after receiving them.

☘ Operating Procedures

For deposits:

- Establish a daily cutoff ensuring collections are credited to the appropriate Custodial Account no later than the Business Day after receiving them.
- Ensure collections deposited to the Clearing Account are credited to the applicable Custodial Account by:
  - for non-ACH funds, the first Business Day after receiving them; or
  - for ACH funds, the second Business Day after receiving them, but this does not extend your deadline to remit funds to Fannie Mae.

Section 303  P&I Custodial Accounts

303.01  Accounts and Deposits

☑ Requirements

You must:

- Maintain 1 separate P&I Custodial Account for each of these Mortgage Loan categories:
  - Cash Mortgage Loans and PFP Mortgage Loans;
  - MBS Mortgage Loans, including
    - MBS Mortgage Loans issued using a REMIC election after January 1, 2021, and
    - MBS for Bonds;
  - Credit Enhancement Mortgage Loans or transactions with Credit Enhancement Instruments;
  - REMIC transactions submitted in the Multifamily Negotiated Transactions (MFNT) application; and
  - any other Securitized Mortgage Loans.
Not commingle P&I Custodial Account funds among the Mortgage Loan categories. For example, P&I funds for an MBS Mortgage Loan may not be commingled with P&I funds for a Cash Mortgage Loan, even for the same Borrower.

Use P&I Custodial Accounts for all Borrower P&I Mortgage Loan payments, including any
- unscheduled principal or interest payments,
- Delinquency Advances, or
- recovered Delinquency Advances.

**Guidance**

You may commingle P&I funds for all Mortgage Loans within the same Mortgage Loan category.

### 303.02 Withdrawals

**Requirements**

You must only withdraw funds from the P&I Custodial Account to:

- Remit funds to Fannie Mae.
- Reimburse a Delinquency Advance recovered from subsequent collections.
- Remove funds erroneously deposited.
- Transfer interest or typical demand deposit or money market account earnings.
- Pay the Guaranty Fee (unless you received a notice of default from any Security Trust Indenture guarantor).
- Remove fees, charges, or other amounts deposited on a temporary basis, including
  - late charges,
  - Servicing Fees, or
  - unsecuritized excess spread (i.e., when a Mortgage Loan's Pass-Through Rate is greater than the MBS Pool's Pass-Through Rate).
- Clear and close the account.
- Transfer any funds to 1 or more other Custodial Accounts per this Chapter.
Section 304  T&I Custodial Accounts

304.01  Deposits

Requirements

You must:

- use T&I Custodial Accounts for
  - all Borrower payments for T&I Impositions per Part V, Chapter 3: Custodial Accounts, Section 304.02: T&I Impositions, and
  - Servicing Advances you make for these items; and
- not commingle T&I Custodial Account funds with
  - P&I Custodial Account funds, or
  - Collateral Agreement Custodial Account funds.

Operating Procedures

You may establish:

- 1 T&I Custodial Account for all T&I deposits from all Mortgage Loans; or
- 2 separate T&I Custodial Accounts, with funds for all
  - Cash Mortgage Loans in 1 T&I Custodial Account, and
  - Securitized Mortgage Loans in the other T&I Custodial Account.

You must obtain Fannie Mae’s consent to establish a separate T&I Custodial Account for an individual

- Mortgage Loan, or
- Borrower.

304.02  T&I Impositions

Requirements

Unless precluded by the Loan Documents, you must:

- collect monthly payments from the Borrower;
- ensure all T&I Impositions are timely paid, including:
real estate taxes;
special assessments;
water and sewer assessments;
PILOTs;
insurance premiums;
ground lease rents; and
all other charges or obligations that could become a Lien against the Property; and
pay any penalty or late fee if you fail to make timely payments.

Guidance

You may:

- Charge the Borrower for any penalty or late fee incurred if the failure to timely pay was due to insufficient T&I Custodial Account funds.
- Use qualified third-party vendors (that you manage and monitor) to
  - collect T&I Custodial Account funds, and
  - pay T&I Impositions.

304.03 Shortfalls

Requirements

T&I Custodial Account shortfalls must be paid by

- the Borrower, or
- you (i.e., a Servicing Advance).

304.04 Prohibited Uses

Requirements

You must not use any T&I Custodial Account funds to:

- supplement a shortfall in the Borrower's monthly P&I payment to Fannie Mae;
- reimburse yourself for any Servicing Advance unless it is recovered from
subsequent collections for that Mortgage Loan; or

- supplement a shortfall in a Borrower's taxes or insurance payment using another Borrower's tax or insurance deposits.

Guidance

You may use a Borrower's own tax or insurance deposits to cover a shortfall in the Borrower's tax or insurance obligation if you adjust future deposits per Part V, Chapter 3: Custodial Accounts, Section 308.04B: Insufficient Funds.

304.05 No Financing for T&I Impositions

- Requirements

To pay any T&I Impositions, you must not

- provide financing to the Borrower, or
- allow the Borrower to obtain financing.

Section 305 Collateral Agreement Custodial Accounts

305.01 Deposits

- Requirements

If required by the Loan Documents, you must establish Collateral Agreement Custodial Accounts for the Borrower's deposits for any:

- Completion/Repair Escrow;
- Replacement Reserve;
- operating deficit escrow; and
- other Collateral Agreement escrow.

- Operating Procedures

You may establish

- 1 account for all Collateral Agreement deposits, or
- a separate Custodial Account for each:

  - Mortgage Loan;
Collateral Agreement type;
Borrower; or
Collateral Agreement.

### 305.02 Full Disbursement

#### Operating Procedures

You must close the Custodial Account per Part V, Chapter 3: Custodial Accounts, Section 302.01: Notifications after you
- complied with the Collateral Agreement, and
- disbursed all Custodial Account funds.

### Section 306 Clearing Accounts

#### Requirements

When establishing a Clearing Account, you must:
- use an Eligible Depository;
- title the account to reflect it is custodial; and
- inform the depository in writing it is a custodial account.

#### Operating Procedures

If you use a Clearing Account for deposits and disbursements, you:
- must establish a separate account for collections and disbursements;
- may use debit and credit memos to transfer funds between the Clearing Account and the Custodial Account; and
- are not required to title the Clearing Account in Fannie Mae’s name, but your records must show Fannie Mae’s interest in the deposits.

#### Guidance

All Clearing Accounts should have a zero balance at the close of each Business Day.

### Section 307 Drafting Accounts
**307.01 Establishing Drafting Accounts**

**Guidance**

You may use Drafting Accounts to simplify transferring funds to Fannie Mae.

**Requirements**

You must comply with Part V, Chapter 3: Custodial Accounts, Section 306: Clearing Accounts when establishing a Drafting Account.

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**307.02 Consolidated Custodial Accounts**

**Requirements**

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<th>You must...</th>
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<td>Use separate consolidated Custodial Accounts for drafting:</td>
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<tr>
<td></td>
<td>• P&amp;I remittances for Securitized Mortgage Loans (other than PFP MBS); and</td>
</tr>
<tr>
<td></td>
<td>• remittances for all Mortgage Loan categories per Part V, Chapter 3: Custodial Accounts, Section 303.01: Accounts and Deposits.</td>
</tr>
<tr>
<td>Corporate/General Lender Accounts</td>
<td>Not designate your corporate, general ledger, or other internal operating account as a Drafting Account.</td>
</tr>
<tr>
<td>Records</td>
<td>Maintain records of the commingled fund sources on an individual Mortgage Loan basis.</td>
</tr>
</tbody>
</table>

**Operating Procedures**

<table>
<thead>
<tr>
<th>Topic</th>
<th>You...</th>
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<td>Must submit a Letter of Authorization (Form 2050).</td>
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<tr>
<td>Timely Remittance</td>
<td>Must move all funds due into the account to ensure timely remittance to Fannie Mae.</td>
</tr>
<tr>
<td>Topic</td>
<td>You...</td>
</tr>
<tr>
<td>-----------------------</td>
<td>---------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Cash Mortgage Loans</td>
<td>May temporarily commingle P&amp;I funds for all Cash Mortgage Loan categories per Part V, Chapter 3: Custodial Accounts, Section 303.01: Accounts and Deposits into 1 consolidated Drafting Account under your master 5-digit Servicer number.</td>
</tr>
<tr>
<td>Securitized Mortgage Loans</td>
<td>May temporarily commingle P&amp;I funds for all Securitized Mortgage Loan categories per Part V, Chapter 3: Custodial Accounts, Section 303.01: Accounts and Deposits into 1 consolidated Drafting Account under your master 5-digit Servicer number.</td>
</tr>
<tr>
<td>P&amp;I Funds</td>
<td>May designate 1 Drafting Account for P&amp;I funds for each Mortgage Loan category per Part V, Chapter 3: Custodial Accounts, Section 303.01: Accounts and Deposits under each of your 9-digit Servicer numbers.</td>
</tr>
<tr>
<td>Commingling Timing</td>
<td>Cannot commingle funds earlier than 1 Business Day before the funds will be drafted.</td>
</tr>
<tr>
<td>System</td>
<td>Must use the</td>
</tr>
<tr>
<td></td>
<td>• Cash Remittance System, or</td>
</tr>
<tr>
<td></td>
<td>• Automated Drafting System (for Securitized Mortgage Loans).</td>
</tr>
<tr>
<td></td>
<td>When you establish a consolidated Custodial Account for the Cash Remittance System, you must establish a separate consolidated Custodial Account under the Automated Drafting System.</td>
</tr>
</tbody>
</table>

### Section 308  
Recordkeeping and Reconciliations

#### 308.01  
Account Analysis and Reconciliation

**Requirements**

You must analyze and reconcile each Custodial Account and associated Clearing Accounts monthly.

**Operating Procedures**

At a minimum, your reconciliation must include:
a depository reconciliation;
the cashbook balance composition; and
an explanation of line items.

Fannie Mae may review your reconciliation including:

an explanation of any adjustments you made;
the specific cashbook balances; and
any individual components.

While Fannie Mae does not prescribe a recordkeeping method to generate a cashbook balance, you must:

maintain the integrity of the Custodial Account balances reported on your reconciliations;
be able to substantiate each cashbook component; and
retain sufficient detail to perform the following cashbook computation:

<table>
<thead>
<tr>
<th>Function</th>
<th>Beginning Cashbook Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>+</td>
<td>Receipts</td>
</tr>
<tr>
<td>-</td>
<td>Disbursements</td>
</tr>
<tr>
<td>+/-</td>
<td>Cashbook Adjustments</td>
</tr>
<tr>
<td>=</td>
<td>Ending Cashbook Balance</td>
</tr>
</tbody>
</table>

308.02 Records

Operating Procedures

You must maintain adequate documentation supporting the Borrower’s payment records, including Clearing Account credits and charges.

308.03 For T&I Custodial Accounts

Requirements

You must maintain and administer all Borrower funds held in a T&I Custodial Account on an individual Mortgage Loan basis.

Operating Procedures
At a minimum, for each Mortgage Loan in a T&I Custodial Account, you must account for:

- T&I Imposition payment deadlines and amounts funded from the account;
- monthly funds due for deposit;
- funds received and deposited;
- withdrawals; and
- amounts you advance for T&I Impositions.

### 308.04 Borrower's T&I Impositions and Custodial Accounts

#### 308.04A Analysis Timing

**Operating Procedures**

You must:

- Analyze your T&I Custodial Account records:
  - annually for each Mortgage Loan; and
  - when a material change occurs in a Borrower's T&I Impositions.
- Determine if the Borrower's T&I Custodial Account funds, plus the Borrower's required monthly deposits, are sufficient to timely pay all upcoming T&I Impositions.

#### 308.04B Insufficient Funds

**Operating Procedures**

If the Borrower's T&I Custodial Account funds are insufficient to timely pay all T&I Impositions, you must

- bill the Borrower for any shortage, and/or
- increase the Borrower's monthly T&I Custodial Account deposit.

After adjusting the Borrower's future deposits, you may use those funds for a shortfall in either taxes or insurance.

#### 308.04C Surplus

**Requirements**

You must not maintain a surplus of more than 2 monthly T&I payments in the
T&I Custodial Account.

Operating Procedures

If the T&I Custodial Account has a surplus of more than 2 monthly T&I payments, you must:

- refund the Borrower the amount of the surplus above the 2 monthly T&I payments; or
- reduce the Borrower's required monthly T&I Custodial Account deposit to reduce the surplus to no more than 2 monthly T&I payments within 12 months.

You cannot refund any T&I Custodial Account surplus if the Borrower or any other party has defaulted under any of the Loan Documents beyond any grace or cure period.

308.05 Annual Statements

Operating Procedures

By January 31st of each year, you must issue the Borrower a T&I Custodial Account statement reporting all activity during the preceding calendar year. You can provide this statement

- in writing, or
- via electronic access.

Guidance

Your annual T&I Custodial Account statement must include:

- Borrower's fund balance at the beginning of the year;
- total Borrower deposits into the account;
- total withdrawals you made;
- itemized list of specific T&I Impositions and other charges (e.g., real estate taxes, insurance premiums, etc.) you paid with the withdrawals;
- Borrower's fund balance at the end of the year; and
- amount of interest, if any, paid or credited to the Borrower on their funds.
This Chapter covers asset management of performing Mortgage Loans. This Chapter does not apply to Non-Performing Mortgage Loans, unless otherwise stated. For asset management of Non-Performing Mortgage Loans, the Servicer must comply with Part V, Chapter 6: Watchlist Management and Part V, Chapter 7: Non-Performing Mortgage Loans. This Chapter covers the Servicer's:

- administration of Loan Documents, including Collateral Agreements;
- review of a delegated and non-delegated Borrower request;
- approval of a delegated Borrower request;
- management of insurance matters;
- review of Transfer/Assumption requests; and
- administration of specialty product types.

The Servicer must submit all Borrower requests, along with any additional information and required documents, through the MAMP. If submitting through the MAMP is not feasible, overnight mail must be used and sent to:

Fannie Mae
Attention: (Drawer AM, Structured AM, Seniors AM, or Assumption/Transfer)
Mailstop 8V-21
1100 15th Street, NW
Washington, DC 20005.

Fannie Mae email addresses and contact information for notices required in this Chapter are located in the Glossary.

For each Mortgage Loan, the Servicer must monitor the Borrower’s compliance with the terms and conditions of the Loan Documents, and facilitate compliance or take appropriate actions to address any instance of noncompliance. All Loan Documents and all other documents required to be retained by the Servicer must be maintained in accordance with the Program Rules.

In the event of any conflict between or among the
requirements of the Guide, the Disclosure Documents, the Lender Contract, and the Loan Documents, the governing priority shall be, in order:

- Loan Documents;
- Disclosure Documents;
- Lender Contract; and
- Guide.

Section 402 Delegation of Decision-Making Authority; Retention of Outside Legal Counsel

402.01 Delegation of Decision-Making Authority

Fannie Mae delegates significant decision-making authority and responsibility to the Servicer to the extent specified in the Multifamily Asset Management Delegated Transaction Forms (Form 4636 series) (each, the “Delegated Transaction Form”), covering the following matters:

- Transfers/Assumptions (Form 4636.TA);
- Commercial Leases (Form 4636.CL);
- Condemnations (Form 4636.C);
- Condominium/Cooperative Property Conversions (Form 4636.CC);
- Easements (Form 4636.E);
- Oil, Gas, or Mineral Rights Leases (Form 4636.OGL);
- Partial Releases of Collateral (Form 4636.PR);
- Property Management Changes (Form 4636.PM); and
- Use Conversions (Form 4636.UC).

The Servicer must follow the instructions in the Delegated Transaction Form, which will specify which matters are delegated and which are non-delegated. All delegated and non-delegated requests must be submitted through the MAMP, with the Delegated Transaction Form and the required supporting documents.

A transaction memo must be submitted for any unusual matters not covered in the Guide, or matters that could materially affect Fannie Mae’s security interests, investment interests, or the interests of Investors in Securitized Mortgage Loans. Decision-making authority is more limited for Credit Facilities, Bulk Deliveries, and certain Seniors Housing Loan matters.
Neither the Servicer nor Fannie Mae has the authority to waive any local, state, or federal law or regulation.

402.02 Retention of Outside Legal Counsel

Fannie Mae often retains outside legal counsel to review non-delegated matters or other matters that require Fannie Mae’s legal review. In such instance, the Servicer must obtain the Borrower’s written agreement to pay the reasonable legal fees and expenses of Fannie Mae’s counsel before any legal work may commence.

If Fannie Mae outside counsel review is required or requested, the Borrower must pay the applicable legal fee, which will either be a fixed fee or an estimated fee depending on the type of request. For an estimated fee request, the Servicer must notify the Borrower that the actual legal fee may be higher or lower than the estimate, depending on the ultimate scope of the request, and the time needed to resolve the issue.

Fannie Mae will:

- apprise the Servicer of any likely increases in the estimated review fee;
- provide the Servicer the amount of the fee for any fixed fee request; and
- provide the Servicer a summary invoice directly from Fannie Mae’s outside counsel.

Upon receipt of the invoice, the Servicer must arrange for payment of Fannie Mae’s legal fees. The legal fee must be collected from the Borrower before engaging Fannie Mae outside counsel.

Section 403 Execution of Documents by Servicer – Limited Power of Attorney

Fannie Mae may provide the Servicer with a Limited Power of Attorney conferring the right to execute certain documents as attorney-in-fact on behalf of Fannie Mae. If granted, the actions authorized in the Limited Power of Attorney will be specifically limited, and allow the Servicer to execute only those documents listed in the Limited Power of Attorney. To exercise the Limited Power of Attorney the Servicer must execute documents as “[Name of Servicer], as Attorney-in-Fact for Fannie Mae”. The Servicer’s designation as attorney-in-fact will be subject to review and renewal, and the power granted under the Limited Power of Attorney may be revoked by Fannie Mae at any time. Requests for new and replacement Limited Power of Attorney should be submitted through the MAMP or as required by Part V, Chapter 4: Asset Management: Loan Document Administration, Section 401.01: General. As each Limited Power of
Attorney expires on a specified date according to its terms, the Servicer must monitor the expiration date and request a new Limited Power of Attorney at least 30 days prior to the expiration date.

Section 404  Execution of Documents by Fannie Mae

404.01  Submission of Documents to Fannie Mae

All documents requiring execution by Fannie Mae (clearly identified by Fannie Mae Loan Number) must be sent to Multifamily Asset Management. Fannie Mae will execute the documents without prior review if the Servicer provides the certifications described in this Section.

The Servicer must include directions for returning the documents, including:

- contact name;
- overnight delivery mailing address;
- phone number; and
- email address.

404.02  Servicer Certification When Fannie Mae Approval Is Not Required

For any document submitted to Fannie Mae for execution when the servicing decision has been delegated to the Servicer, the Servicer must provide written certification to Fannie Mae that:

- the Servicer has reviewed the proposed transaction, and approval by the Servicer is in compliance with the Guide, the Loan Documents, any Disclosure Documents, and the Lender Contract;
- the Servicer has approved the proposed transaction;
- no approval or waiver is required from Fannie Mae;
- Servicer’s legal counsel has reviewed and approved all relevant documents associated with the transaction, and determined that those documents are sufficient to fully effectuate the transaction; and
- any material changes to Fannie Mae form Loan Documents have been approved by Fannie Mae.

404.03  Servicer Certification When Fannie Mae Approval Is Required

For any document submitted to Fannie Mae for execution when the servicing decision has not been delegated to the Servicer, the Servicer must
provide written certification to Fannie Mae that:

- the Servicer has reviewed the proposed transaction, and approval by the Servicer is not delegated under the Guide;
- the Servicer recommends approval by Fannie Mae of the proposed transaction;
- any required waivers have been submitted by the Servicer;
- Servicer’s legal counsel has reviewed and approved all relevant documents associated with the transaction, and determined that those documents are sufficient to fully effectuate the transaction; and
- any material changes to Fannie Mae form Loan Documents have been approved by Fannie Mae.

Section 405 Fees Due to Fannie Mae

Certain fees may be due to Fannie Mae in connection with a Borrower servicing request. The specified fees are for typical requests; however, higher fees may be required for complicated or non-standard requests, or for other matters not specified in this Chapter. No later than 10 Business Days following receipt of any fee by the Servicer, the Servicer must remit to Fannie Mae, by wire transfer of immediately available funds, Fannie Mae’s portion of the fee. The Servicer must submit the wire transfer confirmation number, wire date, and wire amount through the MAMP immediately following each funds transfer, as follows:

ABA Number: 021 039 500
Telegraphic Abbreviation: FNMA/NYC
Account Number: 169220242
Note: Type of fee (e.g., Assumption/Transfer), Fannie Mae Loan Number and Property Name
Attention: Trans code 507 - GL 747669921.

Section 406 Follow-Up Actions by the Servicer

The Servicer must take all applicable actions required to fully effectuate the transaction, including:

- amending the recorded Security Instrument or filed Uniform Commercial Code (UCC) financing statements;
- updating the Property survey;
- obtaining an endorsement to the mortgagee’s title insurance policy showing no impairment of Fannie Mae’s Lien position, and dating down title to reflect any recorded amendment to the Security Instrument;
- recording all applicable documents, and sending the required documents
through the MAMP;

■ sending an executed original copy of any new or amended Loan Document to Multifamily Certification and Custody within 15 Business Days;

■ following the requirements of Part V, Chapter 3: Custodial Accounts, Section 301: Generally if changes are required to any existing Collateral Agreement Custodial Account, or if any new Collateral Agreement Custodial Account must be established in connection with the transaction;

■ retaining copies of all documents, correspondence, and any internal notes or analysis relating to the transaction in the Servicing File; and

■ taking any other actions the Servicer or its legal counsel determines are necessary.

Section 407 Subordinate Financing

407.01 Non-Fannie Mae Subordinate Financing

A Subordinate Loan is generally not permitted unless it complies with Fannie Mae’s requirements. Approval of any Subordinate Loan is not delegated to the Servicer and must be approved in advance by Fannie Mae. Additionally:

■ with respect to any Subordinate Loan, the Servicer must abide by the terms and conditions of the Loan Documents, the Guide, and any Disclosure Documents, provided that the Loan Documents will control in the case of any conflict;

■ unless the Loan Documents explicitly allow a Subordinate Loan, the Servicer must not permit the Borrower, without prior Fannie Mae approval, to incur the Subordinate Loan or allow a Lien securing the Subordinate Loan to be placed against the Property;

■ if the Loan Documents explicitly allow a Subordinate Loan without the approval of the Lender, the consent of the Servicer or Fannie Mae is not required; however, notice of the Subordinate Loan and a copy of any documents must be submitted through the MAMP;

■ the Borrower and the subordinate lender must enter into and record the appropriate Subordination Agreement (Form 6414 or Form 6456 for the 6000 series Loan Documents; Form 4503 or Form 4507 for the 4000 Series Loan Documents); and

■ the proceeds of the Subordinate Loan must benefit the Property (i.e., cash-out financing is not permitted).
The Servicer must immediately notify Multifamily Asset Management in writing upon learning of any unauthorized additional unsecured debt or indebtedness secured by a Lien on the Property or of any pledge of ownership interests that is not permitted by the Loan Documents, and send the Borrower a Reservation of Rights Letter (Form 4804) with a copy submitted through the MAMP. Fannie Mae will determine whether to approve the Subordinate Loan, or exercise its remedies.

407.02 Prerequisite for Subordinate Financing

Part III, Chapter 14: Supplemental Mortgage Loans, contains the requirements for Supplemental Mortgage Loans, and Part III, Chapter 7: Multifamily Affordable Housing Properties contains additional requirements for subordinate financing with respect to a Multifamily Affordable Housing Property. The Servicer must ensure adherence to all applicable requirements.

407.03 Fees for Subordinate Financing

The Borrower must pay the Servicer a $2,500 review fee. The Servicer may increase or decrease its fee at its discretion. No Fannie Mae review fees are due. The Servicer may also seek reimbursement from the Borrower for all reasonable out-of-pocket costs, including reasonable legal fees incurred by Servicer’s counsel.

If Fannie Mae outside counsel is engaged, the Borrower must pay its fee, estimated at $2,500 for Subordinate Financing requests. The actual legal fee may be higher or lower, depending on the ultimate scope of the request and the time necessary to resolve. The Servicer will receive a summary invoice directly from Fannie Mae outside counsel and must arrange for payment. The Servicer will be apprised of any likely increases in the estimated review fee. The estimated legal fee must be collected from the Borrower before engaging Fannie Mae outside counsel.

407.04 Submitting the Request for Subordinate Financing

Any Borrower request for approval of a Subordinate Loan must be reviewed by the Servicer. If acceptable, the request must be submitted for approval through the MAMP in accordance with the following:

- the Servicer must submit the request to Fannie Mae at least 30 days before the projected closing date of the Subordinate Loan; and
- the submission must contain:
  - an Appraisal (obtained at the Borrower’s cost), dated no earlier than 90 days prior to the date of the Borrower request for approval of the Subordinate Loan, that complies
with Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation;

- Servicer’s underwriting spreadsheet showing the Subordinate Loan’s effect on the Property’s income, expenses, NCF, DSCR, and LTV;

- a copy of the final, unsigned loan documents evidencing the Subordinate Loan, with the loan amount, interest rate, payment schedules, and all other transaction related information completed;

- the MBA Standard Inspection Form documenting a physical inspection of the Property, performed at Borrower’s expense, occurring no earlier than 90 days before the date of the Borrower request for the Subordinate Loan; provided that, if the Servicer’s inspection of the Property reveals that the Property is not being properly maintained, the Borrower request will not be approved by Fannie Mae unless:
  - a Replacement Reserve is sufficiently funded; and
  - the Borrower makes any immediate repairs identified by the Servicer prior to the closing date of the Subordinate Loan; and

- a title policy endorsement for the Property showing no unauthorized Liens or encumbrances of any nature against the Property.

For a Cooperative Property, the Subordinate Loan is unacceptable if the potential increase in the Cooperative Maintenance Fee necessary to cover P&I on the Subordinate Loan exceeds 10% of the current Cooperative Maintenance Fee.

### 407.05 Fannie Mae Approval and Execution

Fannie Mae will provide the Servicer with a written decision regarding the Borrower request, after which the Servicer must notify the Borrower in writing and retain the notice in the Servicing File.

### 407.06 Subsequent Servicer Actions

The Servicer must:

- not permit any changes to the form Subordination Agreement (Form 6414 or Form 6456 for the 6000 series Loan Documents; Form 4503 or Form 4507 for the 4000 series Loan Documents) without the prior written consent of Fannie Mae;
obtain a satisfactory title policy endorsement effective as of the
date of recordation of the subordinate security instrument that:

- insures the Lien of the Security Instrument as senior to the
  Lien of the subordinate security instrument; and
- reflects the recordation of the Subordination Agreement;

- submit a copy of the recorded Subordination Agreement
  through the MAMP; and

- send the original executed copy of the recorded Subordination
  Agreement and the title policy endorsement to Multifamily
  Certification and Custody within 15 Business Days, and retain
  copies of each in the Servicing File.

Section 408  Administration of Collateral Agreements

408.01  General Administrative Requirements

408.01A  Administration of Funds

The Servicer must:

- administer and manage funds or collateral under all Collateral
  Agreements; and

- ensure that any disbursements of funds, or other collateral
  releases or reductions, are:

  - approved only for valid reasons;
  
  - appropriately documented; and
  
  - consistent with the provisions of the Collateral Agreement
  and this Section.

408.01B  Funds to be Held in a Custodial Account

The Servicer must deposit funds held under a Collateral
Agreement in a Custodial Account that meets the requirements of Part V,
Chapter 3: Custodial Accounts.

408.01C  Use of Funds

Funds must be used only for the purposes stated in the Collateral
Agreement, and must not supplement a partial P&I payment or cover any
other Borrower obligation unrelated to the primary purposes of the Collateral
Agreement.
408.01D Funds as Additional Security for Mortgage Loan

All funds or other collateral held under a Collateral Agreement constitute additional security for the Borrower’s obligations under the Note and the other Loan Documents. In the event of a default under the Loan Documents, Fannie Mae reserves the right to apply (or direct the Servicer to apply) the funds or other collateral held under any Collateral Agreement in any manner allowed under the terms of such Collateral Agreement. Following a default, unless instructed by Fannie Mae, the Servicer must not:

- release any funds or other collateral held under a Collateral Agreement;
- apply any funds or collateral to the repayment of the Mortgage Loan; or
- reimburse itself from such funds or collateral for any expenses or losses incurred by the Servicer.

408.01E Servicer’s Fees and Costs

If the Collateral Agreement contemplates the payment of fees or costs by the Borrower, the Servicer may collect and retain such fees or costs for its own account, adhering to any specific billing provisions of the Collateral Agreement. Any fees or costs retained by the Servicer must be reasonable in relation to the nature and scope of the services provided by or on behalf of the Servicer. The Servicer must not use any of the funds or other collateral held under the Collateral Agreement to cover such fees or costs. However, the Servicer may deduct such fees or costs from any disbursement of funds to the Borrower, provided such disbursements, fees, and costs are permitted under the Collateral Agreement, or if the Borrower otherwise agrees in writing.

408.01F Waiver or Modification of Terms of Collateral Agreement

Except as noted in this Chapter, the Servicer must not waive or modify the terms of any Collateral Agreement.

408.02 Achievement Agreement or Other Agreement for Additional Collateral

408.02A General

The provisions of this Section govern Achievement Agreements and all Collateral Agreements, other than:

- Multifamily Loan Agreements, including the Completion/Repair Schedule and Replacement Reserve Schedule;
Security Instruments;
Replacement Reserve Agreements; and
Completion/Repair Agreements.

The Servicer must maintain an effective system for monitoring the expiration date of any Achievement Agreement or other Collateral Agreement, and ensure that all actions required to be taken pursuant to any such agreement have been timely performed and, if not timely performed, immediately notify Multifamily Asset Management.

408.02B Releases or Reductions in Collateral

Any request for a release or reduction of collateral must be processed in accordance with this Section, unless these instructions conflict with the terms and conditions of the Achievement Agreement or other Collateral Agreement.

1. General

If the Borrower has not satisfied the requirements for a release or reduction of collateral contained in the Achievement Agreement or other Collateral Agreement, the Servicer must not approve the Borrower request, and may decline the Borrower request without notice to Fannie Mae. If the Servicer determines that the Borrower has satisfied the requirements of the Achievement Agreement or other Collateral Agreement, the Servicer must recommend the release or reduction of collateral through the MAMP, accompanied by the supporting documentation listed below. Upon receipt and review of all pertinent information, Fannie Mae will approve or deny the request and notify the Servicer of its decision.

2. Supporting Documentation and Analysis

The following documentation must be submitted through the MAMP, and maintained in the Servicing File, in connection with each request for a release or reduction of collateral

(a) Income and Expense Statements; Current Rent Roll

Property income and expense statements and a current rent roll must be obtained from, and certified by, the Borrower. The statements must cover the applicable period required by the Achievement Agreement or other Collateral Agreement. Based on the Loan Documents, Parts I - III, the certified income and expense statements, and the current rent roll, the Servicer must develop a Net Cash Flow estimate to determine whether the release or reduction provisions of the applicable Achievement Agreement or other Collateral Agreement are satisfied. The income, vacancy, collection loss,
and concession information should support the Effective Gross Income that the Servicer is relying on in assessing whether a release or reduction is warranted.

In deriving its estimate of Effective Gross Income, the Servicer must adjust for:

- income that was not allowed or recognized in the original underwriting;
- the effect of a partial year’s performance when the shorter period reflects the short-term, positive impact from seasonal variations that do not reflect the Property’s year-round performance; and
- non-monetary concessions, requiring the Servicer to deduct the pro-rata value of the concession from the monthly rent for the applicable unit.

The Servicer must ensure that all appropriate types of expenses, including underwritten Replacement Reserve deposits, are included, and that any inappropriate expenses (e.g., capital improvement costs, repair costs covered by funds set aside under a Completion/Repair Agreement, partnership costs, etc.) are excluded. To avoid unwarranted releases or reductions of collateral, the expense figures must reflect stabilized operating conditions, and must not be understated due to efficiencies or savings that could not be replicated by a different owner or manager, or that would not be recognized for underwriting purposes.

The Servicer must perform a line-by-line expense analysis, including a comparison of the original underwriting estimates with the actual expenses shown on the Borrower’s income and expense statements. The Servicer must use the greater of the underwritten or the actual expense figure shown for each item on the Borrower’s statement.

(b) Servicer’s Analysis

The Servicer must provide an analysis and recommendation regarding the release or reduction of collateral, including any calculations required under the terms of the applicable Achievement Agreement or other Collateral Agreement.

(c) Correspondence

The Servicer must provide any correspondence with the Borrower that pertains to the release or reduction request.
3. Property Inspection

Before approving any request for a release or reduction of collateral, the Servicer must perform a physical inspection of the Property to verify that:

- no deferred maintenance exists;
- necessary capital improvements have been made; and
- the general management and operations are acceptable and characteristic of a stabilized project.

The Servicer’s inspection must occur no more than 90 days prior to the date of the submission to Fannie Mae of the release or reduction request. The Servicer must document the results of its inspection by completing the MBA Standard Inspection Form.

408.02C  Draws on Letters of Credit or Application of Other Collateral

1. Draws Triggered by Adverse Events

The Servicer must promptly notify Multifamily Asset Management when any of the following events occur, which could result in a draw on a Letter of Credit issued for an Achievement Agreement or other Collateral Agreement:

- a default under the Loan Documents, including the Achievement Agreement or other Collateral Agreement;
- the failure to renew or replace an expiring Letter of Credit at least 30 days prior to its expiration date, or other deadline specified in the Achievement Agreement or other Collateral Agreement; or
- the failure to replace a Letter of Credit by the replacement deadline when the Issuer is no longer acceptably rated.

The Servicer’s notice to Fannie Mae must include a recommended course of action, and be accompanied by a copy of the executed Achievement Agreement or other Collateral Agreement.

2. Draw Resulting from Noncompliance with Issuer Rating Requirements or Expiration of Letter of Credit

If a draw on the Letter of Credit occurs due to noncompliance with the rating requirements for the Issuer or because of an imminent expiration of the Letter of Credit, Fannie Mae will hold the Letter of Credit proceeds in its designated account until the earliest of the following:

- the Borrower presents a replacement Letter of Credit and Fannie Mae agrees, in its sole discretion, to accept the
Letter of Credit;
(NOTE: Any agreement by Fannie Mae to accept a replacement Letter of Credit will be conditioned upon the Borrower’s payment of all administrative and legal costs incurred by the Servicer and Fannie Mae in connection with the replacement of the Letter of Credit.)

- the release or reduction provisions of the applicable Achievement Agreement or other Collateral Agreement are satisfied; or

- the Borrower pays all amounts due and payable under the Loan Documents, including any required Prepayment Premium, and Fannie Mae releases the Lien of the Security Instrument.

3. Draws Occasioned by Borrower Request

If the Servicer receives a request from the Borrower to draw on the Letter of Credit and have the proceeds applied as a partial prepayment against the UPB, and the Loan Documents allow partial prepayments, the Servicer must immediately forward the request, along with an analysis and recommendation, including an estimate of the applicable Prepayment Premium, to Fannie Mae. If the Loan Documents do not allow partial prepayments, the Servicer must deny the Borrower request.

Fannie Mae will assess the Borrower request and determine if the proposed use of the Letter of Credit proceeds or other collateral would be in the best interest of Fannie Mae and/or the Investor in any Securitized Mortgage Loan. Any decision to apply Letter of Credit proceeds or apply other collateral to a partial prepayment will be made by Fannie Mae in its sole discretion. Fannie Mae will notify the Servicer of its determination and will provide appropriate follow-up instructions.

4. No Interest on Proceeds Held by Fannie Mae

Fannie Mae will not pay interest on the cash proceeds it holds resulting from a draw on a Letter of Credit.

408.02D Releasing Additional Escrows for Principal and Interest, Taxes and Insurance, and Replacement Reserves

Notwithstanding anything contained in this Chapter, if no Event of Default has occurred and is continuing under any of the Loan Documents (including Forbearance), the Servicer is delegated the authority to waive any Loan Document requirement prohibiting the Servicer from immediately approving a partial or final disbursement request of Additional Escrows for P&I, T&I, and Replacement Reserves required by:
Form 6268 – Modifications to Multifamily Loan and Security Agreement (Additional Reserve Escrows);  
Form 6640 – Amendment to Multifamily Loan and Security Agreement (Additional P&I Escrow Agreement); or  
Form 6641 – Additional P&I Escrow Agreement (4000 series Loan Documents).

The Servicer is delegated the authority to:

- determine whether the waiver requires a Loan Document amendment; and
- document any amendment in any form the Servicer determines to be legally enforceable.

Servicers must document all disbursement requests, including any supporting documentation and analysis, in the Servicing File.

408.03 Completion/Repairs

408.03A General

The Loan Documents for administering Completion/Repairs are:

- for Mortgage Loans documented with the 6000 series Loan Documents, the Multifamily Loan Agreement, plus the:
  - Completion/Repair Schedule;
  - Multifamily Loan Agreement and Modifications to Multifamily Loan and Security Agreement (Rehabilitation Reserve - Moderate Rehabilitation/Substantial Rehabilitation); or
  - another approved Modifications to Multifamily Loan and Security Agreement; and

- For Mortgage Loans documented with the 4000 series Loan Documents, the Completion/Repair Agreement.

The Servicer must administer the Loan Documents to ensure the timely implementation of all Completion/Repairs. Once the Completion/Repairs are completed and comply with the Guide, the Servicer must enter the final completion dates and close out the work items for the Mortgage Loan in the Completion/Repair module in the MAMP. Additional information may be required for any Mortgage Loan assigned to Loss Mitigation. If the Mortgage Loan does not have work items in the MAMP, no further action in the MAMP is required.
408.03B Extensions for Completion/Repairs

The Servicer is delegated the authority to extend the time limits for making Completion/Repairs if:

- the Completion/Repairs subject to the extension request do not involve life safety issues; and
- the Mortgage Loan does not have a Fannie Mae risk rating of Substandard or Doubtful.

Notwithstanding the above, the Servicer is delegated the authority to grant a one-time extension of 30 days for a life safety issue if the Borrower is diligently pursuing completion of the related Completion/Repair.

The duration of any permitted non-life safety extension may not exceed:

- 1 year past the original completion date specified in the Loan Documents for that Completion/Repair, for a Mortgage Loan without loss sharing; and
- 2 years past the original completion date specified in the Loan Documents for that Completion/Repair, for any Mortgage Loan with loss sharing.

The Servicer must submit a Non-Monetary Default Borrower Request in the MAMP if the required Completion/Repairs are not completed with this timeframe.

The Servicer is delegated the authority to grant a one-time extension of up to 90 days past the original completion date for any Completion/Repairs that are Efficiency Measures which the Borrower agreed to implement to qualify as a Green Rewards Mortgage Loan. The Servicer is not delegated the authority to extend the time limit beyond 90 days.

The Servicer is delegated the authority to:

- determine whether the extension requires an amendment to the Loan Documents; and
- document a required amendment in any form the Servicer determines to be legally enforceable.

408.03C Completion/Repair Loan Document Amendments

Servicers are delegated the authority to move required Completion/Repairs from the Completion/Repair Schedule to the Replacement Reserve Schedule, or from the Completion/Repair Agreement to the Replacement Reserve Agreement, and the associated deposit from the Completion/Repair Escrow into the Replacement Reserve, provided:
- the Completion/Repair does not involve life safety issues;
- delaying the Completion/Repair will not materially negatively impact the Property; and
- the total amount of Completion/Repairs being transferred does not exceed the lesser of (i) 25% of the original Completion/Repair Escrow, or (ii) $75,000.

Notwithstanding the above, the Servicer is not delegated the authority to move required Completion/Repairs to the Replacement Reserve Schedule for any Efficiency Measures that the Borrower agreed to implement in order to qualify as a Green Rewards Mortgage Loan.

The Servicer must:

- send the executed Loan Document amendment to Multifamily Certification and Custody within 15 Business Days;
- submit a copy of the Loan Document amendment through the MAMP for any Mortgage Loan with a Completion/Repair work item in the MAMP; and
- retain a copy in its Servicing File.

408.03D Servicer’s Administrative Requirements

For all Completion/Repairs, the Servicer must:

- retain a copy of the executed Multifamily Loan Agreement and Completion/Repair Schedule or Completion/Repair Agreement in its Servicing File;
- hold all Completion/Repair Escrow funds in an account that meets the Custodial Account requirements of Part V, Chapter 3: Custodial Accounts;
- ensure that all necessary permits are obtained, and that all required work is satisfactorily completed in a good and workmanlike manner by the completion dates stipulated in the Loan Documents;
- for a Green Rewards Mortgage Loan, 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 per Part II, Chapter 4: Inspections and Reserves, Section 402: Property Condition Assessment (PCA) for capital improvements identified as Immediate Repairs by the PCA;
process Borrower requisitions for funds in accordance with the terms and conditions of the Loan Documents;

perform required inspections of completed work and, if appropriate, work in progress and, if necessary, arrange inspections by qualified professionals;

ensure that the Completion/Repair work does not result in any mechanics’ Liens, materialmen’s Liens, or other Liens that have not been acceptably bonded over;

promptly submit a Non-Monetary Default Borrower Request in the MAMP for any Completion/Repair Loan Document default;

take appropriate steps to remedy or address any default under the Loan Documents for Completion/Repairs; and

perform all other administrative duties required by the Loan Documents for Completion/Repairs.

408.03E Processing Borrower Requisitions

1. General

Completion/Repair Escrow funds are available to reimburse the Borrower for costs incurred for Completion/Repairs that are specifically identified in the Loan Documents. The Servicer may authorize the release of funds to cover the costs of other reasonable and necessary repairs, replacements, or improvements that are not specified in the Loan Documents only if the Loan Documents permit the disbursements, and all conditions are fully satisfied.

2. Required Documentation for Disbursement

To obtain reimbursement, the Borrower must submit a written requisition specifying the Completion/Repairs for which reimbursement is being sought, including:

- the specific Completion/Repairs completed;
- the quantity and price of all materials (grouped by type or category) or specific replacement items (e.g., appliances) purchased in connection with the Completion/Repairs; and
- the cost of all contracted labor or other services involved in completing the Completion/Repairs.

The Borrower requisition for the specified Completion/Repairs for which reimbursement is being sought must be accompanied by:

- a Borrower certification that the specific Completion/Repairs have been completed:
● in a good and workmanlike manner;
● in accordance with any plans and specifications previously approved by the Servicer; and
● in compliance with all applicable laws, ordinances, rules, and regulations of any governmental authority, agency, or instrumentality having jurisdiction over the Property;

■ copies of invoices and evidence of payment for all items and materials purchased and all labor and services provided, the cost of which exceeds the lesser of $25,000 or 1% of the UPB; and

■ a release of Lien from each contractor, subcontractor, or materialman providing services or materials, the cost of which exceeds the lesser of $25,000 or 1% of the UPB.

3. Disbursement of Funds (Excluding Final Disbursement)

The Servicer may disburse funds to the Borrower only if it has received all required documentation and determined that all applicable conditions for disbursement have been met, including (but not limited to) the following:

■ all Completion/Repairs covered by the requisition have been completed in a good and workmanlike manner, as evidenced by the Borrower’s submission and, if appropriate, an inspection of the completed work (see guidance on inspections below);

■ all related invoices for items and services covered by the requisition have been paid, unless the Borrower has satisfied any applicable conditions of the Loan Documents for issuance of a joint check(s), made payable to the Borrower and the Person owed funds under such invoices;

■ no mechanics’ Liens, materialmen’s Liens, or other Liens exist, unless acceptably bonded over;

■ no default exists under any Loan Document;

■ for each Green Rewards Efficiency Measure disbursement, the Efficiency Measure was reported as:
compliant on the Green Rewards Verification Inspection Form (Form 4221) per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 408.03I: Green Rewards Efficiency Measure Verification; or

noncompliant, and Fannie Mae has approved and closed the remediation in DUS Property Monitor; and

- for a Green Rewards Mortgage Loan with a Solar PV System as an Efficiency Measure, Completion/Repair Escrow funds are only released after confirming commercial operation of the Solar PV System.

The amount disbursed to the Borrower for any requisition, other than the final requisition, may not exceed the actual cost of the Completion/Repairs, and may be less than the actual cost if, after disbursement, the amount of funds remaining in the Completion/Repair Escrow would be less than the anticipated cost of completing all remaining Completion/Repairs plus any holdback specified in the Loan Documents.

Notwithstanding the above, once 75% of the total dollar amount of Completion/Repairs is disbursed, the Servicer may release funds in the Completion/Repair Escrow, provided:

- funds are only released for Completion/Repairs that have been fully completed;
- the Servicer has complied with all other disbursement requirements;
- the Servicer completes an analysis showing that the remaining amount in the Completion/Repair Escrow is sufficient to complete all remaining Completion/Repairs;
- the Borrower affirms in writing its obligation to complete the remaining Completion/Repairs by the required completion dates; and
- the Completion/Repair Escrow is not for a Green Rewards Efficiency Measure that must be released per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 408.03I: Green Rewards Efficiency Measure Verification.

For Green Rewards Efficiency Measures included in a
Moderate Rehabilitation Mortgage Loan, funds may be periodically disbursed from the applicable Completion/Repair Escrow or Rehabilitation Reserve Escrow as with a non-Green Rewards Mortgage Loan, rather than only after a compliant verification inspection of Efficiency Measures.

4. Final Disbursement of Funds

Before making the final disbursement of funds from the Completion/Repair Escrow, the Servicer must confirm and document the absence of any mechanics' and materialmen's Liens by requiring the Borrower to obtain an updated title report or a title policy endorsement showing that no such Liens exist. The Servicer may waive the updated title report or endorsement for Secondary Risk Mortgage Loans when the total scope of work is less than $75,000. If the Borrower fails to provide the required title documentation, the Servicer must obtain a title report or title policy endorsement, and may charge the Borrower for the cost.

The Servicer may make a final disbursement of all remaining funds upon satisfactory completion of all required Completion/Repairs, and satisfaction of all other applicable release conditions contained in the Loan Documents for Completion/Repairs.

5. Maintenance of Servicing File

The Servicer must document the action taken with respect to each Borrower requisition for funds from the Completion/Repair Escrow in its Servicing File.

408.03F Inspections

1. Use of Third Party

The Servicer may inspect the Property, or have a qualified independent third party inspect the Property, to confirm that the Completion/Repairs covered by the requisition have been satisfactorily completed. The Servicer is responsible for monitoring the third-party's performance.

2. When Periodic Inspections Are Required

Periodic inspections must be performed as the work progresses if the Completion/Repairs:

- exceed in the aggregate the lesser of:
  - $500,000, or 20% of the UPB for any Mortgage Loan with loss sharing; or
  - $250,000, or 10% of the UPB for any Mortgage Loan without loss sharing; and
are likely to require more than 6 months to complete.

Inspections must occur at least every 6 months, or more frequently at the Servicer’s discretion.

3. When a Final Inspection Is Required

An inspection must be performed to ensure that all Completion/Repairs have been satisfactorily completed before approving and disbursing the final requisition when the Completion/Repairs exceed the lesser of:

- $500,000, or 20% of the UPB for any Mortgage Loan with loss sharing; or
- $250,000, or 10% of the UPB for any Mortgage Loan without loss sharing.

4. Confirming Completion/Repairs if Inspection Is Not Required

Even if an inspection is not required by this Section, the Borrower must provide evidence to the Servicer that all Completion/Repairs covered by the requisition have been satisfactorily completed. If not inspected sooner, the Servicer must confirm the satisfactory completion of the Completion/Repairs during the next regularly scheduled Property inspection.

5. Documenting the Servicing File

In all instances, the Servicer must document in its Servicing File whether all work was satisfactorily completed.

408.03G Fees

Completion/Repair Escrow funds may not be used to cover any administrative or inspection fees due to the Servicer unless expressly permitted Loan Documents, or the Borrower agrees in writing. If permitted, the Servicer may charge the Borrower and deduct the following from any disbursement of funds:

- reasonable fees to cover the Servicer’s costs of administering the Completion/Repairs; and
- additional fees to cover any reasonable inspection costs that are not adequately covered by general administrative fees collected from the Borrower.

408.03H Completion/Repair Defaults

1. Notification of Default to Fannie Mae
The Servicer must immediately submit a Non-Monetary Default Borrower Request in the MAMP for any Completion/Repair Loan Document default.

2. No Release of Funds to Borrower

No funds may be released to the Borrower while the Borrower is in default under any of the Loan Documents.

408.03I Green Rewards Efficiency Measure Verification

For all Green Rewards Mortgage Loans, the Servicer must ensure a Green Rewards Verification inspection is performed for all Efficiency Measures to confirm correct installation, and identify any errors that may hinder the Property achieving the expected savings and benefits.

1. Green Rewards Verification Inspection

For a Green Rewards Verification inspection, the inspector must use the Green Rewards Verification Inspection Form (Form 4221) that is pre-populated with Property information and the Efficiency Measures identified as Green Rewards Repairs in the Completion/Repair Schedule. The Servicer must submit Form 4221 within 60 days after the Green Rewards Verification inspection date, and timely resolve any issues identified by Fannie Mae.

2. Minimum Inspector Qualifications

Third-party or Servicer staff must attend Fannie Mae’s Green Rewards Verification inspection training on the requirements, processes, and documentation before conducting Green Rewards Verification inspections.

The minimum inspector qualifications correspond to the applicable Efficiency Measure type, and may be held by the inspection project team, rather than by an individual inspector.

<table>
<thead>
<tr>
<th>Efficiency Measures</th>
<th>Description</th>
<th>Minimum Inspector Qualification</th>
</tr>
</thead>
</table>
| Basic               | Simple upgrades such as:  
• low-flow water fixtures; or 
• lighting improvements. | Servicer must ensure the inspector is either a qualified third-party or Servicer staff per Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocols and Part V, Chapter 5: Surveillance, Section 502.05: Property Inspector Qualifications. |
Complex Upgrades and changes to building systems, such as:
• heat recovery ventilation systems; or
• boiler controls.

• For Solar PV System Efficiency Measures, the Servicer must retain a
  - Solar Technical Consultant per Part III, Chapter 4: Green Mortgage Loans, Section 401.03: Technical Solar Report, or
  - qualified PCA High Performance Building Consultant per the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099).

• For other Efficiency Measures, the Servicer must retain a qualified PCA High Performance Building Consultant per Form 4099.

3. Unit Inspection

The inspector must inspect a minimum number of occupied and vacant units as follows:

<table>
<thead>
<tr>
<th>Total number of units</th>
<th>Minimum number of units to be inspected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 20</td>
<td>3 units</td>
</tr>
<tr>
<td>20 - 55</td>
<td>5 units</td>
</tr>
<tr>
<td>56 - 99</td>
<td>10% of total units</td>
</tr>
<tr>
<td>100 - 200</td>
<td>10 units</td>
</tr>
<tr>
<td>201 - 600</td>
<td>5% of total units</td>
</tr>
<tr>
<td>More than 600</td>
<td>30 units</td>
</tr>
</tbody>
</table>

Form 4221 calculates the required number of units and tracks the number of completed units based on the user's inputs. When unit inspections are required, the Servicer must:

- Determine the appropriate combination of vacant and occupied units for inspection.
- Determine which vacant and occupied units to inspect.

- Submit at least:
  - 1 representative photograph of each Efficiency Measure listed on Form 4221; and
  - 1 photograph of each non-compliant Efficiency Measure.

For Partial Efficiency Measures, the Servicer must request a rent roll or other documentation identifying the units that received Partial Efficiency Measure installations, and conduct the Green Rewards Verification of those units.

4. Determining Compliance

An Efficiency Measure is compliant when the inspector:

- inspects each Efficiency Measure;
- verifies its proper installation within specifications using product information and field observation;
- confirms the Efficiency Measure installation meets the Multifamily Loan Agreement and Completion/Repair Schedule requirements; and
- documents it on Form 4221.

5. Remediating Noncompliance

When an Efficiency Measure is noncompliant:

- The Servicer must:
  - provide a notice of the Efficiency Measure deficiencies to the Borrower and determine a course of action;
  - submit a remediation action plan through the DUS Property Monitor system that:
    - addresses the Property’s Efficiency Measure deficiencies; and
    - provides a target date for remediation completion that is no more than 60 days after the Borrower receives the notice of deficiencies.

- The Borrower must correct or complete the Efficiency Measure installation during the remediation period.

- Fannie Mae may require the Servicer to inspect the remediated Efficiency Measures based on the severity of noncompliance.
6. Verification Inspection Form Review

The Servicer must internally review all Green Rewards Verification Inspection Forms (Form 4221), whether prepared by a third party or by the Servicer before submission.

**408.04 Replacement Reserve**

**408.04A General**

The Loan Documents for administering Replacement Reserves are:

- Multifamily Loan Agreement and Replacement Reserve Schedule, for Mortgage Loans documented with the 6000 series Loan Documents; and

- Replacement Reserve Agreement, for Mortgage Loans documented with the 4000 series Loan Documents.

The Replacement Reserve funds must be held by the Servicer in a Custodial Account, and are intended to pay for necessary replacements of capital items or major maintenance work to the Property over the term of the Mortgage Loan.

**408.04B Replacement Reserve Loan Document Amendments**

If the Servicer’s Limited Power of Attorney delegates the authority to amend the Loan Documents to revise the terms governing the Replacement Reserves, only the changes expressly permitted by this Section can be made, and the delegation does not expand the Servicer’s ability to change or modify any other term of the Loan Documents.

The Servicer must send the executed Loan Document Amendment to Multifamily Certification and Custody within 15 Business Days, and retain a copy in its Servicing File.

**408.04C Servicer’s Administrative Requirements**

For all Replacement Reserves, the Servicer must:

- retain a copy of the executed Multifamily Loan Agreement and Replacement Reserve Schedule or Replacement Reserve Agreement in its Servicing File;

- unless the Borrower has requested in writing a non-interest bearing account, hold all funds in an interest-bearing Custodial Account that meets the requirements of Part V, Chapter 3: Custodial Accounts and the Loan Documents;

- ensure that all required deposits are made to the Replacement
Reserve in accordance with the Loan Documents;

- process Borrower requisitions for funds in accordance with the terms and conditions of the Loan Documents;

- perform required inspections of completed work and, if appropriate, work in progress, and arrange, if necessary, for inspections by qualified professionals;

- ensure that work funded from the Replacement Reserve does not result in any mechanics’ Liens, materialmen’s Liens, or other Liens that have not been acceptably bonded over;

- promptly submit a Non-Monetary Default Borrower Request in the MAMP for any Replacement Reserve Loan Document default;

- take appropriate steps to remedy or address any default under the Loan Documents for Replacements, Repairs, or Restoration; and

- reassess the adequacy of the Replacement Reserve or the schedule of required deposits; and

- perform all other administrative duties required by the Loan Documents for the Replacement Reserve.

408.04D  Modifications to Replacement Reserve Deposits

Based on the results of a Property inspection or a new Property Condition Assessment as required below, the Servicer may determine that the current level of Replacement Reserve funding and scheduled deposits will be insufficient to meet all projected capital item or major maintenance needs. The Servicer must then:

- adjust the Replacement Reserve Schedule or the Replacement Reserve Agreement and the Replacement Reserve funding to a sufficient level, if warranted, in accordance with the Loan Documents and Part III, by requiring the Borrower to:
  - deposit a lump sum into the Replacement Reserve; and/or
  - increase the monthly Replacement Reserve deposit; and

- give the Borrower at least 30 days advance written notice prior to implementing any of the foregoing changes.

Based on the results of the new Property Condition Assessment obtained during the underwriting and delivery of a Supplemental Mortgage Loan, the Servicer may:

- adjust the Replacement Reserve funding, scheduled deposits,
408.04E  New Property Condition Assessments

1. Timing and Waivers

A new PCA is required for:

- all MAH Properties every 5 years; or
- for any other Mortgage Loan with a term greater than 10 years, during the 10th Loan Year, and every 10 years thereafter, while the Mortgage Loan remains outstanding, or per the Loan Documents.

Notwithstanding the above, the Servicer is delegated the authority to waive the new PCA for non-MAH Properties as follows:

<table>
<thead>
<tr>
<th>Remaining Loan Term</th>
<th>Servicer Delegation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 Year</td>
<td>The new PCA may be waived for a Mortgage Loan with a:</td>
</tr>
<tr>
<td></td>
<td>• Pass rating;</td>
</tr>
<tr>
<td></td>
<td>• Property inspection less than 1 year old; and</td>
</tr>
<tr>
<td></td>
<td>• Property condition rating of 1, 2, or 3.</td>
</tr>
<tr>
<td>1 Year to 5 Years</td>
<td>The new PCA may be waived for a Mortgage Loan with a:</td>
</tr>
<tr>
<td></td>
<td>• Pass rating;</td>
</tr>
<tr>
<td></td>
<td>• Property inspection report less than 1 year old; and</td>
</tr>
<tr>
<td></td>
<td>• Property condition rating of 1 or 2.</td>
</tr>
<tr>
<td>More than 5 Years</td>
<td>The new PCA may be waived for 5 years for a Mortgage Loan with a:</td>
</tr>
<tr>
<td></td>
<td>• Pass rating;</td>
</tr>
<tr>
<td></td>
<td>• Property Inspection report less than 1 year old; and</td>
</tr>
<tr>
<td></td>
<td>• Property condition rating of 1 or 2.</td>
</tr>
</tbody>
</table>
After 5 years, a new PCA is required unless the Mortgage Loan continues to qualify for Servicer waiver delegation. A Property may only receive a PCA waiver twice (i.e., a Mortgage Loan with a 30-year term may obtain a PCA waiver after the 10th loan year and the 15th loan year, but a new PCA is required after the 20th loan year).

All PCA waivers must be documented in the Servicing File, and any PCA waiver may be rescinded by Fannie Mae or the Servicer at any time if the Property condition warrants a new PCA.

2. **Streamlined PCA Permitted**

The Servicer may use Streamlined PCA Guidance (Form 4099.A) if the most recent Property site inspection:

- was performed according to Part II, Chapter 4: Inspections and Reserves, Section 401: Site Inspection;
- indicated an overall rating of 1 or 2; and
- did not reveal any adverse change in Property condition (except normal wear and tear) or life safety issues.

3. **Delivery and Payment of Property Condition Assessment**

The Servicer must submit any new PCA to Fannie Mae through the MAMP and retain a copy in its Servicing File. Subject to the terms of the Loan Documents, the cost of the PCA may be paid from funds in the Replacement Reserve.

408.04F  **When Replacement Reserve Funding Was Partially or Fully Waived**

If Replacement Reserve funding was partially or fully waived at the Mortgage Loan Origination Date, the Servicer must monitor the condition of the Property to ensure the Borrower preserves and maintains the Property as required by the Loan Documents.

If the Servicer or Fannie Mae determines that the Borrower is not properly preserving and maintaining the Property, the Servicer must require the Borrower to begin making monthly deposits to the Replacement Reserve in accordance with either the funding schedule set forth in the Loan Documents, or an alternative funding schedule determined by the Servicer.

408.04G  **Interest on Replacement Reserve Funds**

If the Servicer holds the Replacement Reserve funds in an interest-bearing Custodial Account, none of the interest earned on the Replacement Reserve funds may be retained by the Servicer. Unless the Mortgage Loan is in default, all interest must be:

- added to the balance of the Replacement Reserve; or
paid to the Borrower if applicable law requires or the Servicer agrees.

408.04H  Items Eligible for Funding from the Replacement Reserve

Replacement Reserve funds are available to reimburse the Borrower for costs incurred to replace capital items or maintain major items specifically identified in the Loan Documents.

Replacement Reserve funds also may be used for discretionary replacements of capital items or major maintenance items that are not specifically identified in the Loan Documents, but which the Servicer determines are intended to be covered by a Replacement Reserve Schedule, such as those that would:

- correct or forestall a problem that may adversely affect the physical condition, livability, marketability, or value of the Property;
- directly contribute to the maintenance or enhancement of the Property's physical condition, livability, marketability, or value; or
- likely be noted in an updated Property Condition Assessment.

If Replacement Reserve funds are used for purposes not originally contemplated in the Loan Documents, the Servicer must monitor and adjust the monthly reserve deposits to ensure sufficient funds are available to make timely replacements of capital items or major maintenance items in the manner contemplated in the Loan Documents and/or the PCA.

408.04I  Items Not Eligible for Funding from the Replacement Reserve

The Servicer must not use Replacement Reserve funds to reimburse the Borrower for any item specifically identified for reimbursement under a Completion/Repair Agreement, or for any routine maintenance item, routine repair, or cosmetic repair that would normally be characterized as an operating expense. Replacement Reserve funds must never be used for P&I, T&I, or any other purpose not specifically permitted by the Loan Documents, or the Guide.

408.04J  Processing Borrower Requisitions

1. General

The Loan Documents specify the frequency, timing, and size of disbursements from the Replacement Reserve.

2. Required Documentation

Each Borrower requisition must be in writing and specify, at a
minimum:

- the specific capital item replaced or major maintenance items for which reimbursement is being sought, and if any item is not specifically identified in the Loan Documents, an explanation of why the Replacement Reserve funds should be released for the item;
- the quantity and price of each type of capital item replaced (e.g., refrigerators);
- the quantity and price of all materials or parts (grouped by type or category) purchased; and
- the cost of all contracted labor or other services.

Each Borrower requisition submitted to the Servicer must be accompanied by:

- a Borrower certification that the capital item replacements or major maintenance items covered by the requisition have been completed in compliance with all applicable laws, ordinances, rules, and regulations of any governmental authority, agency, or instrumentality having jurisdiction over the Property;
- copies of invoices and evidence of payment for all capital items and materials purchased and all labor and services provided, the cost of which exceeds the lesser of $25,000 or 1% of the UPB;
- a release of Lien from each contractor, subcontractor, or material man providing services or materials, the cost of which exceeds the lesser of $25,000 or 1% of the UPB; and
- other relevant documentation required by the Loan Documents.

3. Disbursement of Funds

The Servicer may release funds to the Borrower only if all required documentation is received, and all applicable release conditions have been met, including, but not limited to:

- all capital item replacements or major maintenance items covered by the requisition have been completed in a good and workmanlike manner;
- all related invoices for capital items and services have been paid, unless the Borrower has satisfied any applicable conditions of the Loan Documents for issuance
of a joint check, made payable to the Borrower and the Person owed funds;

- no mechanics’ Liens, materialmen’s Liens, or other Liens are outstanding that have not been acceptably bonded over; and

- the Borrower is not in default under any Loan Document.

The amount disbursed to the Borrower must not exceed the actual cost of the capital item replacements or major maintenance items covered by the Borrower’s requisition.

4. Maintenance of Servicing File

The Servicer must ensure that the action taken with respect to each Borrower requisition for funds from the Replacement Reserve is appropriately documented in its Servicing File.

408.04K Inspections

The Servicer may use its discretion in deciding whether to conduct an on-site inspection before approving any specific requisition for Replacement Reserve funds. If the Servicer elects not to perform an on-site inspection when a requisition is submitted, the Servicer must inspect all capital item replacements or maintenance items covered by the requisition during its next scheduled Property inspection and confirm the satisfactory completion.

408.04L Fees

If the Loan Documents permit, the Servicer may collect and retain:

- a reasonable fee to cover the Servicer’s routine costs of administering the Replacement Reserve; and

- additional fees to cover:
  
  - reasonable inspection costs, including the fees of any qualified professional used by the Servicer; and
  
  - any other reasonable costs incurred in connection with collecting, holding, investing, or disbursing Replacement Reserve funds but which are not adequately covered by the general administrative fees collected from the Borrower.

Subject to the Loan Documents, the Servicer may charge the Borrower a reasonable fee for any special inspection services provided in connection with a Replacement Reserve requisition; however, no fee may be charged if such inspection is made as part of a regularly scheduled Property inspection.
Replacement Reserve funds, including any interest, may not be used to cover fees due to the Servicer unless:

- the Loan Document specifically permits the Servicer to use Replacement Reserve funds to pay Servicer inspection fees; or
- the Borrower otherwise agrees in writing.

### 408.04M Replacement Reserve Defaults

**1. Notification of Default to Fannie Mae**

The Servicer must immediately submit a Non-Monetary Default Borrower Request in the MAMP for any Replacement Reserve Loan Document default.

**2. No Release of Funds to Borrower**

No funds may be released to the Borrower while the Mortgage Loan is in default.

### 408.04N Return of Replacement Reserve Funds to Borrower

No later than 30 days after the Mortgage Loan is paid in full, the Servicer must refund to the Borrower all remaining Replacement Reserve funds.

### 408.04O Alternative Funding of Replacement Reserves for Portfolio Mortgage Loans

The Servicer may amend existing the Schedule 5 to Multifamily Loan Agreement - Replacement Reserve Schedule or Replacement Reserve Agreement on Fannie Mae’s behalf to match the alternative Replacement Reserve funding available for newly originated Mortgage Loans if the Borrower has a history of adequate property maintenance, and no other concerns are present (e.g., declining Property condition, declining rents, declining Net Cash Flow). The Servicer must send the executed Loan Document amendment revising the Replacement Reserve Schedule or Replacement Reserve Agreement to Multifamily Certification and Custody within 15 Business Days, and retain a copy in its Servicing File.

The Servicer must ensure the Property is properly maintained on an ongoing basis. If the Property is not being properly maintained, the Servicer must reinstate monthly deposits to the Replacement Reserve and the reimbursement requisition process.

### Section 409 Interest Rate Hedge Requirements

**409.01 General**

An acceptable Interest Rate Hedge must be in place and
maintained at all times for:

- variable rate Credit Enhancement Mortgage Loans;
- Structured ARM Loans; and
- any Mortgage Loan where (i) the Borrower was permitted to execute the Fannie Mae form Interest Rate Cap Reserve and Security Agreement (Springing Cap) (Form 6442.SC), or a similar agreement, allowing for a "springing" Interest Rate Cap under certain circumstances, and (ii) the requirement of the Borrower to acquire and pledge to the Lender an Interest Rate Cap has been triggered under the agreement.

The Interest Rate Hedge may be either an Interest Rate Cap or Interest Rate Swap, although the prior approval of Fannie Mae is required before the Borrower may enter into an Interest Rate Swap.

Each Interest Rate Hedge Agreement and its collateral assignment must meet the requirements of Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans.

Fannie Mae outside counsel must be engaged, at Borrower’s cost, to review the hedge bid package and documents, and prepare the amended Loan Documents for each hedge renewal. The Servicer must submit a completed Counsel Designation Request for Interest Rate Hedge Transactions (Form 4625.A).

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For Bond Credit Enhancement Mortgage Loans, the Interest Rate Hedge must:

- be in place whenever the variable rate mode is in effect; and
- comply with the requirements of the Reimbursement Agreement and other Loan Documents.

| 409.02B | Structured Transactions |

When required for a Structured Transaction, the Servicer must ensure that the Interest Rate Hedge conforms to the applicable Master Credit Facility Agreement, Bulk Delivery Agreement, and/or the other Loan Document requirements.

| 409.02C | All Hedges |

At the end of each 12-month period, the Servicer must evaluate the
Interest Rate Cap reserve and determine if the cost of a replacement Interest Rate Cap has increased or decreased based on market conditions.

- If the estimated cost of a replacement cap has increased, the Servicer must increase the monthly reserve payment to ensure that sufficient funds will be available to purchase the replacement cap by the end of the reserve period.
- If the estimated cost of a replacement cap has decreased, the Servicer must not adjust the reserve.

The Servicer may refund to the Borrower any amount left in the reserve account after purchasing the replacement Interest Rate Cap.

### 409.03 Interest Rate Hedge Term

The Servicer must:

- monitor the term of each Interest Rate Hedge Agreement;
- hold all escrowed funds for an Interest Rate Hedge in an account meeting the Custodial Account requirements of Part V, Chapter 3: Custodial Accounts;
- engage the Borrower prior to expiration of each Interest Rate Hedge to ensure that an acceptable replacement Interest Rate Hedge is in place prior to its expiration; and
- perform any required functions with respect to the Interest Rate Hedge Agreement.

### 409.04 Lien Filings and Collateral

The Servicer must maintain all UCC filings, and ensure that Fannie Mae’s Lien in the Interest Rate Hedge is maintained. The Servicer must not direct the investment, application, or release of the collateral under any Interest Rate Hedge Agreement, without express written authorization from Fannie Mae.

### 409.05 Borrower Payments

#### 409.05A Interest Rate Caps

Any payments by the Interest Rate Cap provider must be made to the Servicer and not to the Borrower. The disposition of funds depends on whether the Borrower is current on the Mortgage Loan and Reimbursement Agreement payment obligations (principal or PRF deposit, as applicable, interest, any Interest Rate Cap escrow, and all other amounts then due) or any default exists under the Reimbursement Agreement or any other Loan...
If no default exists, the Servicer must remit the Interest Rate Cap provider’s payment to the Borrower. If a default exists, the Servicer must retain the Interest Rate Cap provider’s payment as additional collateral for the Borrower’s obligations, to be held in accordance with the applicable agreements, and notify Multifamily Structured Asset Management of the receipt of the payment.

If the Bond Trustee or another third party is to receive any payments from the Interest Rate Cap provider, and the Borrower is not current on its payments or a default exists, then the Servicer must:

- notify the payee of the facts; and
- instruct the third party to withhold the payment to the Borrower, and make payment to the Servicer to be held as additional collateral for the Borrower’s obligations.

409.05B Interest Rate Swaps

The Servicer must monitor the Interest Rate Swap to ensure that all payments are made on a timely basis. All payments under an Interest Rate Swap must be made directly to the Servicer, which will:

- remit the amount received from the Borrower to the Interest Rate Swap provider; or
- remit the amount received from the Interest Rate Swap provider to the Borrower, but only after the Borrower has made the required monthly P&I payment on the Mortgage Loan.

Payments due on the Interest Rate Swap must match the payment dates on the Mortgage Loan or the Bonds, as applicable. The Servicer must advance Interest Rate Swap payments and Interest Rate Swap credit enhancement fees that are not made by the Borrower or the Interest Rate Swap provider, as applicable, on a timely basis. These payments and their duration will be treated as Delinquency Advances. The Servicer is not required to advance any termination payment due on the Interest Rate Swap.

409.06 Provider Ratings

Fannie Mae lists the credit agency rating requirements and the acceptable Interest Rate Hedge providers on Cap/Swap Counterparties for Multifamily Transactions. If the rating of a provider declines to a level where termination and replacement of the outstanding Interest Rate Hedges with that provider is required, Fannie Mae will notify the affected servicers and direct them to contact their Borrowers and work with them to effect the termination and replacement. Failure to replace any Interest Rate Hedge
provider whose rating no longer meets the rating requirements is a default under the Loan Documents.

### 409.07 Replacement Interest Rate Hedge and Notification

At least 90 days before termination of an Interest Rate Hedge, the Borrower must give the Servicer written notice of its intent to either obtain a new Interest Rate Hedge or, for a variable rate Credit Enhancement Mortgage Loan or Structured ARM Loan, adjust the interest rate to a Bond Reset Interest Rate or fixed rate.

If the Borrower elects to obtain a new Interest Rate Hedge, the Servicer must confirm that the possible Interest Rate Hedge providers are all on the current list of approved Cap/Swap Counterparties for Multifamily Transactions, and review the Loan Documents for the timing requirements.

If the Interest Rate Hedge expires and the Borrower has failed to provide evidence of securing the replacement Interest Rate Hedge, the Servicer must notify Multifamily Structured Asset Management immediately. Fannie Mae will instruct the Servicer’s action regarding the Borrower’s default.

### 409.08 Replacement Interest Rate Hedge Documents and Follow Up

The Servicer must send to Multifamily Certification and Custody within 15 Business Days the original replacement Interest Rate Hedge documents, including the Interest Rate Cap Agreement or Interest Rate Swap Agreement, the Assignment of Hedge Interest or Supplemental Hedge Security Agreement, and UCC Financing Statements, and retain copies in the Servicing File. The Servicer must submit a copy of the new Interest Rate Cap Agreement or Interest Rate Swap Agreement through the MAMP, and provide the new Interest Rate Hedge information as follows:

- for Credit Enhancement Mortgage Loans – upload Hedge Delivery Information (Form 4643) into CESIR;
- for all Interest Rate Hedges in Credit Facility and Bulk Delivery transactions – update hedge data in MSFMS; or
- for Structured ARM Loans (except in Credit Facility and Bulk Delivery transactions) – submit Form 4643 through the MAMP.

### Section 410 Ground Leases

If the Borrower owns a Leasehold interest in the Property, the Servicer must:

- ensure that the Borrower complies with all provisions of the Loan Documents that relate to the Ground Lease;
if the Ground Lease payments are escrowed, collect monthly payments from the Borrower to ensure sufficient funds will be available to pay the ground rents and any special payments required by the Ground Lease; and

- hold any escrowed ground rent payments with the Borrower’s other T&I escrow funds in a T&I Custodial Account or a separate Custodial Account that meets all requirements of Part V, Chapter 3: Custodial Accounts.

The Servicer is responsible for any losses incurred by Fannie Mae if the Servicer fails to make timely ground rent payments. The Servicer must immediately submit a Non-Monetary Default Borrower Request in the MAMP for any Ground Lease default.

Section 411 Notice of Lien or Noncompliance with Applicable Laws, Ordinances and Regulations

The Servicer is responsible for protecting the Lien priority of the Security Instrument, and must:

- take all reasonable actions to prevent the filing of any Lien that would prime the Lien of the Security Instrument;
- immediately notify Multifamily Asset Management, in writing, upon learning of any such Lien filing, including a recommendation for resolving the situation; and
- submit a Non-Monetary Default Borrower Request in the MAMP, if:
  - the Servicer is aware of any material violation by the Borrower or Property management agent of any applicable law, ordinance, regulation, or other legal requirement; or
  - the Property is not in compliance with any applicable law, ordinance, regulation, or other legal requirement, including, without limitation, any relating to:
    - Fair Housing Act;
    - Americans with Disabilities Act;
    - non-discrimination;
    - environmental hazards;
    - occupancy;
    - zoning and land use;
    - health, fire, and building codes relating to immediately hazardous conditions; and
illegal use of the Property.

The Servicer must also provide to Fannie Mae all information concerning any lawsuit, cause of action, or claim by any third party resulting from or relating to the violation.

Section 412 Property Forfeitures and Seizures

Various federal and state statutes provide for the civil or criminal forfeiture of certain types of property, including real estate that is used, or intended to be used, to commit or facilitate the commission of certain violations of law.

The Servicer must not provide any information about the Borrower, the Mortgage Loan, the Property, any Key Principal, or any Principal directly to any federal or state agency unless Fannie Mae specifically authorizes the release of the information. Following any contact from a federal or state official, the Servicer must immediately contact Multifamily Asset Management and Multifamily Special Asset Management. The Servicer should describe in its communication the nature of the contact, the information requested, and any document or papers received by the Servicer in connection with the contact. The Servicer must continue to service the Mortgage Loan.

Section 413 Property and Liability Insurance

413.01 Property and Liability Insurance

The Servicer must:

- ensure that the Property is continuously covered by property and liability insurance, as required by Part II, Chapter 5: Property and Liability Insurance, and that all renewal premiums are paid in full and on time; and

- at least annually review the adequacy of the Borrower's insurance coverage in relation to the current requirements of Part II, Chapter 5: Property and Liability Insurance.

If the existing insurance coverage or policy is inadequate, the Servicer must require the Borrower to make appropriate changes. Periodically, the Servicer may be required to make certain representations to Fannie Mae regarding the property and liability insurance coverages and policies for all of the Mortgage Loans it services.
The Servicer must not provide financing to the Borrower, or otherwise permit the Borrower to obtain financing, in order to pay any insurance premiums, except as permitted by Part II, Chapter 5: Property and Liability Insurance.

### 413.03 Flood Map Changes; Obtaining Flood Insurance

The Servicer must monitor all flood map and community status changes, and take appropriate action when changes affecting Mortgage Loans it services occur as required by Part II, Chapter 5: Property and Liability Insurance. When a Property is remapped into a Special Flood Hazard Area, the Servicer must require the Borrower to obtain flood insurance, regardless of whether the community is “participating” in the National Flood Insurance Program. The flood insurance policy must be in place within 45 days after the effective date of the remapping. If the Borrower refuses to obtain the required coverage or pay a disputed premium, the Servicer must obtain the required coverage. The Servicer must contact Multifamily Insurance if:

- a Property is in a Special Flood Hazard Area;
- the community in which the Property is located does not participate in the National Flood Insurance Program; and
- the Borrower cannot obtain the required flood insurance.

### 413.04 Lender Placed Insurance

#### 413.04A Property and Liability Insurance

If the Borrower fails to obtain acceptable insurance coverage, the Servicer must immediately obtain acceptable insurance coverage for the Property at the Borrower’s expense.

#### 413.04B Flood Insurance

If acceptable insurance coverage cannot be obtained, the Servicer must immediately contact Multifamily Insurance to determine the appropriate course of action.

#### 413.04C Servicer’s Administrative Costs and Expenses

The Servicer is permitted to collect from the Borrower any reasonable out-of-pocket costs and expenses incurred by the Servicer to obtain insurance coverage for the Property.

### Section 414 Casualty Losses – Performing Mortgage Loans
414.01 Notice

In the event of a casualty loss of $75,000 or more, the Servicer must submit through the MAMP a:

- Report of Multifamily Hazard Insurance Loss (Form 178):
  - within 30 days if no serious injury or death occurred; or
  - within 10 days if serious injury or death occurred; and

- final Form 178 indicating that the Property is fully restored, and document its Servicing File when the Property is fully restored.

A revised Form 178 must be submitted if any of the information on the form changes for any casualty loss greater than the lesser of (i) $500,000, or (ii) 20% of the UPB.

414.02 Filing Proof of Loss

For any casualty loss covered by the Borrower’s insurance policy, the Servicer must ensure that the Borrower timely files a proof of loss with the insurance carrier, and effects a prompt and reasonable adjustment of the loss. If the Borrower fails to timely file a proof of loss with the insurance carrier, or take requisite actions to effect a prompt adjustment of the loss claim, the Servicer must independently contact the insurance carrier to adjust the loss claim.

414.03 Casualty Loss Assessment

The Servicer must assess the extent and impact of any damage caused by a casualty, and ensure that the Borrower appropriately addresses the damage.

Within 45 days after learning of a casualty loss, the Servicer must document its Servicing File with the results of its casualty loss assessment. At a minimum, the Servicer must include:

- when the casualty loss occurred and when the Servicer was first informed of the casualty loss;

- the scope of the damage and its effect on the Property (e.g., impact on the habitability of the buildings, safety of the residents, serious injury or loss of life, project occupancy, and project income and expenses);

- the Borrower’s plan of action for securing and restoring the damaged portion of the Property, and the status of the Borrower’s efforts to implement the plan, including the specific steps to be taken (e.g., temporarily relocating tenants,
preparing plans and specifications, awarding contracts, and commencing repair work);

- whether any environmental problems are associated with the damage, and if so, how they will be addressed;

- the projected cost to repair and restore the damaged improvements, including any available information on contractors’ bids or awards;

- whether the casualty loss is covered by the Borrower’s insurance policy, the status of any insurance claim, and an estimate of the amount and timing of the funds to be received from the insurance carrier;

- the estimated amount of additional funds that the Borrower will have to provide from its own resources to complete all necessary repair and restoration work, and the current availability of such funds; and

- any other relevant information pertaining to the loss event that is known to the Servicer and could have a material bearing on Fannie Mae’s interests.

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### 414.04 Required Casualty Loss Property Inspection

The Servicer must inspect the Property, take photographs of the damage, and complete a Multifamily Catastrophic Loss Inspection (Form 4261) if:

- the casualty loss is expected to exceed the lesser of (i) $500,000, or (ii) 20% of the UPB of the Mortgage Loan as of the date of the casualty; or

- any of the following conditions exists:
  
  - a default has occurred and is continuing under the Loan Documents;
  
  - the combination of insurance proceeds and Borrower funds is insufficient to complete the necessary Property repairs for restoration to a condition fit for human habitation and meeting all applicable permitting requirements;
  
  - prior to the commencement of any restoration work, the Servicer determines that, upon completion of the repair and restoration work, the Property will not be capable of generating sufficient income to cover all operating expenses, required Replacement Reserve deposits, P&I on the Mortgage Loan, and required payments on any subordinate debt secured by the Property, or will not otherwise meet a DSCR or other test required by the Loan...
Documents; or

- the repair and restoration work will not be completed by the earlier of (i) the Maturity Date, or (ii) within 1 year from the date of the casualty.

The Servicer may charge the Borrower for the cost of the inspection unless expressly prohibited by the Loan Documents.

An inspection by the Servicer is optional if the casualty loss is expected to be less than (i) $500,000, or (ii) 20% of the UPB, and none of the above conditions exist. If the Servicer elects not to inspect the Property, the Servicer must confirm during the next Property inspection, and document in its Servicing File, that the repair and restoration work was satisfactorily completed. If the Servicer determines that the repair or restoration work was not satisfactorily completed, the Servicer must notify Multifamily Inspections and Multifamily Loss Mitigation) in writing, as required by Part V, Chapter 5: Surveillance.

414.05 Documentation for Required Casualty Loss Property Inspections

After inspecting the Property, the Servicer must:

- retain in its Servicing File a copy of the completed Catastrophic Loss Inspection (Form 4261), and photographs of the damaged portions of the Property; and

- submit a copy of the Catastrophic Loss Inspection (Form 4261) and the photographs through the MAMP within 7 days after completing the Catastrophic Loss Inspection (Form 4261).

414.06 Endorsement of Insurance Loss Draft or Check When Payable to Fannie Mae

Any insurance loss draft or check issued by the insurance carrier must be made payable to Fannie Mae in care of the Servicer, or as otherwise required by the mortgagee clause. Provided the Lender Contract contains nothing to the contrary, the Servicer is delegated the authority to endorse any insurance loss draft or check on Fannie Mae’s behalf, as follows:

Fannie Mae
By: [Name of Servicer]
By: [Name of Servicer’s Authorized Signer]
[Title of Servicer’s Authorized Signer].

If any insurance loss draft or check made payable to Fannie Mae or the Servicer is cashed by the Borrower without proper endorsement by Fannie Mae or the Servicer, the Servicer must instruct the Borrower to send
the funds to the Servicer within 5 Business Days. If the Borrower does not send the funds, the Servicer must contact Multifamily Asset Management immediately.

414.07 Endorsement of Insurance Loss Draft or Check When Not Payable to Fannie Mae

If the insurance loss draft or check is payable to the Servicer, the Servicer is authorized to endorse the draft or check and apply the proceeds in accordance with this Section. The Servicer must also send the Insurer an Insurance Loss Payee Notice Letter (Form 4803) so that all future insurance loss drafts and checks will be issued to Fannie Mae in care of the Servicer. The Servicer must retain a copy of the Insurance Loss Payee Notice Letter (Form 4803) in its Servicing File.

414.08 Insurance Loss Draft or Check Not Payable to Either Fannie Mae or Servicer

If the insurance loss draft or check is not made payable to either Fannie Mae or the Servicer, the Servicer must return it to the insurance carrier and request the loss draft or check be reissued in the name of Fannie Mae and sent to the Servicer. If the check has already been cashed by the Borrower, the Servicer must demand those funds be either paid by the Borrower to the Servicer and/or deposited in a Custodial Account meeting the requirements of Part V, Chapter 3: Custodial Accounts.

414.09 Application of Insurance Loss Proceeds

The Servicer must review the Loan Documents to confirm no contrary requirements exist regarding the application of insurance loss proceeds (e.g., where the Loan Documents require the noteholder to “reasonably” approve the application of insurance proceeds, where the noteholder is to apply commercially reasonable standards, or where the noteholder has the power to approve in its sole discretion).

414.09A Fannie Mae Determination Required

If any of the following conditions exist, Fannie Mae will determine, in its sole discretion, whether to require the insurance loss proceeds to be (i) applied to the UPB, or (ii) used to repair and restore the Property:

- a default has occurred and is continuing under the Loan Documents;
- the combination of insurance proceeds and Borrower funds is insufficient to complete the necessary Property repairs for restoration to a condition fit for human habitation and meeting all applicable permitting requirements;
- prior to the commencement of any restoration work, the Servicer determines that, upon completion of the repair and
restoration work, the Property will not be capable of generating sufficient income to cover all operating expenses, required Replacement Reserve deposits, P&I on the Mortgage Loan, and required payments on any subordinate debt secured by the Property, or will otherwise meet a DSCR or other test required by the Loan Documents; or

- the repair and restoration work will not be completed by the earlier of (i) the Maturity Date, or (ii) within 1 year from the date of the casualty loss.

**414.09B Disposition of Insurance Loss Proceeds**

Based upon the Borrower’s plan of action and the Servicer’s overall assessment, and provided none of the conditions listed in Part V, Chapter 4: Asset Management: Loan Document Administration, Section 414.04: Required Casualty Loss Property Inspection exist, the Servicer has the authority to:

- hold the proceeds to incrementally reimburse the Borrower for the cost of repairing the damage and restoring the Property to habitable condition; or
- recommend to Fannie Mae that the proceeds be applied to the UPB of the Mortgage Loan by submitting a request through the MAMP.

**414.10 Property Restoration Requirements**

All insurance loss proceeds will be held to reimburse the Borrower in increments for the cost of repairing the damage and restoring the Property. If the Property will be restored to habitable condition, the Servicer must:

- deposit all insurance loss proceeds in a Custodial Account meeting the requirements of Part V, Chapter 3: Custodial Accounts, to incrementally reimburse the Borrower for the cost of repairing the damage;
- require the Borrower to deposit, in the same Custodial Account, funds equal to the difference between (a) the Servicer’s estimate of the total cost to repair and restore the Property to its pre-casualty condition, and (b) the amount of the insurance proceeds;
- for losses greater than $75,000, prepare and have the Borrower execute the applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) for use with the 6000 series Loan Documents if
documented before the June 2019 Loan Document publication, or Insurance Loss Proceeds Collateral Agreement (Form 6639) for use with the 4000 series Loan Documents, specifying the terms and conditions under which the funds held in the Custodial Account will be released to the Borrower (Form 6615) is not required for Mortgage Loans with Loan Documents documented after the June 2019 Loan Document publication); and

- submit a copy of any applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639) through the MAMP.

The Servicer may waive the above requirement that the Borrower deposit additional funds into the Custodial Account if (i) the Servicer deposits all insurance loss proceeds into the Custodial Account, and (ii) determines that the Borrower, Key Principals, and Principals have sufficient funds to repair and restore the Property when the insurance loss proceeds alone are insufficient.

Within 7 days of execution, the Servicer must submit through the MAMP copies of:

- any applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639);
- any Report of Multifamily Hazard Insurance Loss (Form 178); and
- if required and completed, a copy of the Multifamily Catastrophic Loss Inspection (Form 4261).

The Multifamily Catastrophic Loss Inspection (Form 4261) must be submitted through the MAMP within 7 days after the later of:

- the execution of any Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639); or
- the completion of the Multifamily Catastrophic Loss Inspection (Form 4261).

The Servicer must send to Multifamily Certification and Custody within 15 Business Days the original executed copy of any Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639),
and retain in its Servicing File the original:

- Multifamily Catastrophic Loss Inspection (Form 4261); and
- Report of Multifamily Hazard Insurance Loss (Form 178).

### 414.11 Commencement of Repair/Restoration Work

Before the Servicer disburses any funds to the Borrower for repair or restoration work the Servicer must:

- have any applicable executed Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639);
- have on deposit in a Custodial Account all insurance loss proceeds and, unless waived as provided above, sufficient Borrower funds to cover the estimated cost to complete the repair and restoration work;
- except in the case of minor casualties, have copies of all applicable building permits and other permits/authorizations required to carry out the repair and restoration work;
- except in the case of minor casualties, review (or have a qualified professional review) and approve any plans and specifications relating to the repair and restoration work;
- obtain from the Borrower the identities of each principal contractor, architect, and engineer who will be involved in the repair and restoration work, and be satisfied with their qualifications (including assurance each is appropriately licensed and bonded); and
- obtain evidence of builder’s risk insurance, if required, in accordance with Part II, Chapter 5: Property and Liability Insurance, Section 501.02E: Builder’s Risk Insurance.

Any emergency work required to protect the Property or correct a condition threatening the health or safety of the tenants must be undertaken immediately by the Borrower, even if the forgoing requirements have not been complied with.

### 414.12 Disbursements

#### 414.12A Prerequisites for Disbursement of Funds

Before disbursing funds, including the final disbursement, to the Borrower for each disbursement request, the Servicer must be satisfied that:
all repair and restoration work has been completed in a good and workmanlike manner and in accordance with any applicable plans and specifications, as evidenced by submissions from the Borrower and, if applicable, by the Servicer’s or a qualified professional’s inspection of the completed work;

all related invoices for items and services have been paid, unless the Borrower has satisfied any applicable pre-conditions of the Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639) for issuance of a joint check made payable to the Borrower and the Person owed funds;

the necessary release of Lien or Lien waivers have been submitted by all contractors, and no mechanics’ Liens, materialmen’s Liens, or other Liens are outstanding that have not been acceptably bonded over; and

the Borrower is not in default under any Loan Document, including the Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639).

414.12B Disbursing Funds

The Servicer must approve and disburse funds related to each Borrower request in accordance with the Loan Documents, including any applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639). Funds must be disbursed no more frequently than once a month, unless:

- the Servicer determines that more frequent disbursements of funds are appropriate and can be managed effectively; or
- the disbursement is equal to or greater than $10,000, or is the final disbursement of proceeds.

414.12C Content of Disbursement Request

Each of the Borrower’s disbursement requests must be in writing and must specify, at a minimum:

- the specific repair and restoration work for which reimbursement is being sought;
- the quantity and price of all materials (grouped by type or
category) or specific replacement items (e.g., appliances) purchased; and

- the cost of all contracted labor or other services.

The Borrower’s disbursement requests must be accompanied by:

- a Borrower certification that the repair and restoration work was completed in a good and workmanlike manner, in accordance with any plans and specifications previously approved by the Servicer, and in compliance with all applicable laws, ordinances, rules, and regulations of any governmental authority, agency, or instrumentality having jurisdiction over the Property;

- copies of invoices and evidence of payment for all items and materials purchased and all labor and services provided, the cost of which exceeds the lesser of $25,000 or 1% of the UPB;

- a release of Lien from each contractor, subcontractor, or materialman providing services or materials, the cost of which exceeds the lesser of $25,000 or 1% of the UPB; and

- other relevant documentation required under the Loan Documents, including any applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639).

414.12D Disbursement Amount

The amount of each disbursement (other than the final disbursement) may not exceed the lesser of:

(i) an amount equal to:

- the actual cost of the repair and restoration work covered by the disbursement request, or, if the work was done under a contract or subcontract pursuant to which other work remains to be done, an amount equal to 90% of the actual cost of the repair and restoration work covered by the disbursement request (i.e., a 10% holdback is required if the work under the applicable contract or subcontract has not been completed in full); plus

- 100% of the cost of any materials used, or to be used, in connection with the repair and restoration work, if at the time of the disbursement request, title to the materials has passed to the Borrower and the materials have been installed, or are being properly
stored, on the Property; or

(ii) an amount equal to the difference between:

- the balance of the Collateral Agreement Custodial Account at the time of the disbursement request; and
- the estimated cost of all remaining repair and restoration work at that time of the disbursement request.

### 414.12E Final Disbursement; Notice to Fannie Mae

Upon satisfactory completion of all required repair and restoration work, and satisfaction of all other applicable conditions of the Loan Documents, including any applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639), the Servicer must:

- disburse all remaining funds to the Borrower; and
- submit through the MAMP a final Report of Multifamily Hazard Insurance Loss (Form 178) to indicate that all work was satisfactorily completed.

### 414.12F Documentation in Servicing File

The Servicer must ensure that all actions taken with respect to each Borrower disbursement request are appropriately documented in its Servicing File.

### 414.13 Borrower's Failure to Diligently Pursue Repair

The Servicer must notify Multifamily Asset Management immediately if the Borrower fails to:

- proceed diligently with any necessary repair and restoration work;
- perform the work satisfactorily; or
- perform in accordance with the terms of the Loan Documents, including any applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639).

The Servicer's notice to Multifamily Asset Management must include a description of any steps that the Servicer is taking to resolve the situation.
If the insurance loss proceeds include funds specifically designated to defray administrative costs incurred by the mortgagee in connection with the casualty loss, the Servicer may reimburse itself from this designated amount for its actual, reasonable administrative costs. If no such provision is made by the insurer, the Servicer may not seek reimbursement for its administrative costs from the proceeds, nor may the Servicer seek reimbursement separately from the Borrower.

Section 415  Casualty Losses – Non-Performing Mortgage Loans

The Servicer must contact Multifamily Special Asset Management before performing a casualty loss assessment on a Property securing a Non-Performing Mortgage Loan. Fannie Mae will determine whether the Servicer should proceed with the assessment, and direct the Servicer accordingly. Any activity or action plans to repair or restore the Property must be approved by Fannie Mae. All insurance loss drafts and checks must be forwarded to Fannie Mae for endorsement and disposition.

Section 416  Credit Facilities and Bulk Deliveries

416.01  General

Each Credit Facility and Bulk Delivery transaction is different, therefore the requirements in this Section may not apply to every transaction. The Servicer must refer to the applicable Master Credit Facility Agreement, Bulk Delivery Agreement, and other Loan Documents for specific requirements.

416.02  Delegation of Decisions

Credit Facility and Bulk Delivery requests are delegated to the Servicer as described below.

416.02A  Decisions and Actions Not Delegated

Decisions and actions are not delegated to the Servicer when a request involves:

- amendments or changes to the Master Credit Facility Agreement, Bulk Delivery Agreement, or equivalent agreement, except for the Fannie Mae standard form (i) Amendment for Completion/Repair extensions, and (ii) changes to the monthly Replacement Reserve deposits;

- Supplemental Mortgage Loans or borrow-ups (future advances);
additions, releases, or substitutions of collateral;
revaluation and determination of the Allocable Facility Amount;
Transfers/Assumptions;
the interest rate conversion from variable to fixed on a SARM Loan;
Interest Rate Hedge renewals or modifications;
refinances;
defeasance;
payoffs/terminations;
Ground Lease or operating lease modifications; or
Property management or operator changes.

416.02B Decisions Delegated by the Delegated Transaction Form 4636 series

Decisions and actions covered by the Delegated Transaction Forms (Form 4636 series) are delegated to the Servicer as set forth in the applicable Form 4636 series. For these requests, the Servicer must submit the completed Delegated Transaction Form (Form 4636 series) through the MAMP.

416.02C Other Delegated Decisions

Decisions and actions involving the following are delegated to the Servicer to the extent delegated in this Chapter:

- Letter of Credit replacements and draws;
- Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreements (Form 6639);
- endorsing insurance checks;
- Completion/Repair Agreement extensions;
- changes to the monthly Replacement Reserve deposits;
- administering escrow accounts; and
- administering Collateral Agreements.

If the Servicer has any questions regarding the need for Fannie Mae approval, the Servicer must contact Multifamily Structured Asset Management prior to proceeding.
**416.03 Approval Requests**

If Fannie Mae approval is required, the Servicer must submit a request through the MAMP. Any approval request must include the Servicer's recommendation, any supporting documentation (including references to the relevant sections of the governing documents), and the Servicer's analysis supporting its recommendation.

**416.04 Release and Substitution Requests**

To the extent permitted by the provisions of the Master Credit Facility Agreement, Bulk Delivery Agreement, and the other Loan Documents, Borrowers may have the ability to release or substitute collateral. These requests must follow the provisions of the Loan Documents, and are not delegated under this Section.

The Borrower must initiate the release/substitution process by submitting a written request to the Servicer. Upon receipt, the Servicer must submit a release/substitution request package through the MAMP that includes:

- the Servicer’s summary of the Borrower's release/substitution request, and its recommendation regarding approval of the requested release/substitution;
- any waiver requests and the Servicer's recommendation for approval of each waiver;
- when the Borrower expects the release/substitution to close;
- whether the Property meets all conditions to release/substitute and compliance tests (e.g., LTV, DSCR, geographic/asset concentration) stipulated in the Master Credit Facility Agreement, Bulk Delivery Agreement, and other Loan Documents;
- for a Credit Facility, the release price and calculations (calculated according to the terms of the Master Credit Facility Agreement and other Loan Documents);
- for a Credit Facility, the remaining Allocable Facility Amount balance of the facility and each property after the release;
- the amount of the release/substitution fees associated with the transaction;
- whether a prepayment or advance of funds is expected to occur in connection with the transaction;
- the Structured Facilities Monitoring Spreadsheet (Form 4802) showing the Mortgage Loan level and collateral level data for the Structured Transaction both before and after the
release/substitution occurs;
- third-party reports; and
- any other items required by the Loan Documents.

If a Letter of Credit or cash collateral is required as part of the request, the Servicer must enter the Letter of Credit or cash collateral information in MSFMS. Any Letter of Credit must meet the requirements of Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit. Original Letters of Credit must be sent to Multifamily Structured Acquisitions.

If the request is approved, the Servicer must:
- submit its payoff calculations to Multifamily Structured Acquisitions;
- release the collateral from the MSFMS system; and
- if necessary, release, update, and verify any interest rate hedges associated with the transaction in MSFMS.

### 416.05 Borrow-Up (Future Advance) Requests

To the extent permitted by the Master Credit Facility Agreement, Bulk Delivery Agreement, and the other Loan Documents, the Borrower may have the ability to obtain a Future Advance. These requests must follow the requirements of the applicable Loan Documents, and approval is not delegated to the Servicer.

The Borrower must initiate the Borrow-Up process by submitting a written request to the Servicer. Upon receipt, the Servicer must submit a Borrow-Up request package through the MAMP that includes:
- the Servicer’s summary of the Borrower’s Borrow-Up request and its recommendation for approval;
- any waiver requests and the Servicer’s recommendation for approval of each waiver;
- the amount of the Borrow-Up and the supporting underwriting spreadsheets and calculations (calculated per the terms of the Master Credit Facility Agreement and other Loan Documents);
- when the Borrower expects the Borrow-Up to close;
- whether the Property meets all conditions and compliance tests (e.g., LTV, DSCR, geographic/asset concentration) for a Borrow-Up per the applicable Loan Documents;
- a quote sheet;
- a Sources and Uses statement;
Facility Revaluations

Revaluations of Credit Facilities and Bulk Deliveries occur as required by the Master Credit Facility Agreement and Bulk Delivery Agreement. Servicers must send recommended property cap rates and values along with supporting market information through the MAMP. Upon completion of Fannie Mae’s review, the Servicer will be notified of the final cap rate determination and valuation. The Servicer must promptly notify the Borrower of the revised cap rates, Property values, Allocable Facility Amounts, LTV, and the failure to meet any compliance tests (if applicable). The Servicer must attach a copy of this Borrower correspondence to the request in the MAMP.

Supplemental Mortgage Loans Not Permitted

Supplemental Mortgage Loans on Properties that are part of a Credit Facility or a Bulk Delivery are not permitted unless expressly authorized under the Master Credit Facility Agreement, Bulk Delivery Agreement, and other Loan Documents. The Servicer must contact Multifamily Structured Asset Management before underwriting a Supplemental Mortgage Loan.

Additional Information

For any issue not covered in this Section, or if the Servicer requires a more detailed explanation, contact Multifamily Structured Asset Management.

Seniors Housing Properties

General
The requirements in this Section may not apply to every Seniors Housing Mortgage Loan. The Servicer must refer to the Loan Documents for specific requirements.

417.02 Decisions and Actions Delegated and Not Delegated

Decisions and actions covered by the Delegated Transaction Form (Form 4636 series) are delegated to the Servicer as set forth in the applicable Form 4636 series or the Guide. For these requests, the Servicer must submit the completed applicable Form 4636 series through the MAMP. Decisions and actions for Seniors Housing Mortgage Loans regarding the following are not delegated to the Servicer:

- Seniors Housing expansions/conversions, including constructing additional units, substantial alterations, Seniors Housing Major Renovations, and Seniors Housing Minor Renovations;
- changes in the Seniors Housing operator;
- changes in Property management or management agreements;
- changes in licensing (Note: All licensing changes require an Opinion of Borrower’s Counsel on Origination of Mortgage Loan (Seniors Housing Licensing) (Form 6450.SRS) confirming that all licensing requirements have been met);
- Seniors Housing operator Leases; and
- master leases.

If the Servicer has any questions regarding the need for Fannie Mae approval, the Servicer must contact Multifamily Seniors Housing Property Asset Management before proceeding.

417.03 Approval Requests

The Servicer must refer to the Loan Documents and this Section to determine whether Fannie Mae approval is required for a particular request. If Fannie Mae approval is required, the Servicer must submit a request through the MAMP. Any approval request must include the Servicer’s recommendation, any supporting documentation (including references to the relevant sections of the governing documents), and the Servicer’s analysis supporting its recommendation.

417.04 Seniors Housing Expansion/Conversion Requests

Unless expressly permitted by the Loan Documents, requests by the Borrower for the construction of additional units, renovation, or
expansion of a Seniors Housing Property, or a change in the overall percentage of one Seniors Housing type of unit (e.g., Independent Living, Assisted Living, or Alzheimer’s/Dementia Care) into another are not delegated to the Servicer. The Borrower must request approval from the Servicer and Fannie Mae before proceeding, and Fannie Mae will consider these requests under the following parameters, conditions, and requirements:

**417.04A Permitted Purpose**

To allow for the construction of additional units on existing land, or the renovation and/or repositioning of existing units:

- a “Seniors Housing Major Renovation” is any physical improvement costing in excess of (i) $20,000/unit, or (ii) $3 million in total project costs; and
- a “Seniors Housing Minor Renovation” is any physical improvement that is not a Seniors Housing Major Renovation, but which increases the number of units, or converts one type of unit into another, unless expressly permitted by the Loan Documents.

**417.04B Submission Requirements**

Upon receipt of a Borrower Seniors Housing Expansion/Conversion Request, the Servicer must submit a written request through the MAMP, and include the following:

- Sponsor name and experience in operating seniors housing properties;
- Mortgage Loan performance;
- financial performance (including NCF and UPB history, and DSCR and LTV trends);
- pro forma financial statements;
- sources/uses of funds statement;
- project budget, scope, and plans;
- market study;
- construction contract and timeline;
- Servicer’s monitoring plan;
- licensure issues;
- insurance; and
general contractor and major subcontractors.

Fannie Mae will review the completed request, and approve or decline the request in its sole discretion.

417.04C Requirements and Monitoring

For a Seniors Housing Expansion/Conversion Request approved by Fannie Mae, the following requirements will apply:

- Escrow:
  - the Borrower must escrow 25% of the estimated construction costs with the Servicer, who will administer the funds through a standard construction draw process; and
  - the Borrower must demonstrate to the Servicer’s satisfaction that it has sufficient liquid assets to complete the construction;

- Minimum DSCR during the expansion/conversion period cannot fall below 1.15x;

- Completion of construction must occur no later than 18 months from the date of commencement;

- Construction monitoring requirements will be set forth in the approval letter;

- Fannie Mae will charge a construction monitoring fee which does not cover the expenses associated with third-party inspections;

- Completion Guaranty (Form 6018, Form 6632, or Form 6633) and, if determined applicable by Fannie Mae, an Agreement and Assignment Regarding General Contractor’s Contract (Form 6473), and an Omnibus Assignment of Contracts, Plans, Permits, and Approvals (Form 6473), will be required;

- Fannie Mae will charge a change in use fee, and the Servicer may charge additional fees at its discretion, subject to approval by Fannie Mae;

- The Borrower must reimburse all legal costs incurred by Fannie Mae; and

- A fixed-price general construction contract provided by a general contractor, together with a payment and performance bond issued by an acceptable surety, will be required.
417.04D  Construction Completion Requirements

Within 60 days of completing any Seniors Housing Major Renovation or Seniors Housing Minor Renovation, the Borrower must deliver to the Servicer, and the Servicer must provide to Fannie Mae, the following:

- title endorsement to the existing mortgagee title policy, confirming that no mechanics’ Liens, materialmen’s Liens, or other Liens exist that have not been acceptably bonded over;
- final lien waivers from all contractors, architects, subcontractors, and material suppliers;
- copies of updated or newly issued certificates of occupancy;
- renewed licenses;
- confirmation in the form of an Opinion of Borrower’s Counsel on Origination of Mortgage Loan (Seniors Housing Licensing) (Form 6450.SRS) that all licensing requirements have been met;
- certificate from the Borrower, architect, and contractor certifying to the Servicer, for the benefit of Fannie Mae, that the improvements:
  - are completed in accordance with the plans and specifications approved by Fannie Mae; and
  - meet the local zoning and planning restrictions, and all other governmental requirements;
- final inspection of completed Improvements;
- updated certified operating statement and rent roll for the Seniors Housing Property; and
- a survey showing any new Improvements on the Seniors Housing Property.

417.04E  Request Changes in Unit Count/Mix in the MAMP

Within 60 days of completion of any Seniors Housing Major Renovation or Seniors Housing Minor Renovation, the Servicer must request any applicable change in unit count and/or unit mix (IL, AL, ALZ) in the MAMP resulting from the renovation.

Section 418  Credit Enhancement Mortgage Loans and Multifamily Affordable Housing Properties

418.01  Bond Transactions and Credit Enhancement Mortgage Loans
For any Credit Enhancement Mortgage Loan where Fannie Mae is providing credit enhancement for tax-exempt multifamily housing Bonds, the Borrower must provide the Servicer with a copy of the compliance monitoring statement required under the Bond Documents. If the Borrower’s statement reflects noncompliance with the low- and moderate-income tenant occupancy requirements set forth in the Affordable Regulatory Agreement, or if the Borrower fails to provide the statement to the Servicer, the Servicer must notify Multifamily Asset Management, and retain the compliance monitoring statement in its Servicing File.

### 418.02 Compliance Issues Relative to Bond Credit Enhancement Transactions

The Servicer must monitor the Interest Reserve Requirement, if any, under the Bond Trust Indenture with respect to each Credit Enhancement Mortgage Loan.

The Servicer must monitor the rating of the institution in which the accounts under any Cash Management, Security, Pledge, and Assignment Agreement are held, and must require the Borrower to move the accounts if the rating no longer meets Fannie Mae’s requirements as provided in Part V, Chapter 3: Custodial Accounts.

### 418.03 Monitoring Compliance; Notification of Noncompliance

#### 418.03A Affordable Regulatory Agreement

At least once in each calendar year (and more often if directed by Fannie Mae), the Servicer must obtain a Borrower certification that the Property is in full compliance with:

- the rules qualifying the interest on the Bonds for exclusion from gross income for federal income tax purposes pursuant to the Internal Revenue Code; and
- the requirements of the Affordable Regulatory Agreement.

The Servicer must review the Borrower certificate, and if the Property does not comply with all applicable regulatory requirements, the Servicer must immediately notify Multifamily Asset Management. Neither Fannie Mae nor the Servicer is responsible for determining or ensuring the Borrower’s compliance under the Affordable Regulatory Agreement.

#### 418.03B Default Notice for Failure to Comply with the Bond Documents

The Servicer must promptly notify Multifamily Asset Management, the Borrower, the Bond Trustee, and the Issuer in writing of any default by a Borrower with any provision of any Loan Document, Reimbursement Agreement, Security Agreement, the Affordable Regulatory Agreement, or other Loan Document, Credit Enhancement Document, or Bond Document.
The Servicer must promptly forward to Multifamily Asset Management copies of any notices received from a Borrower, Bond Trustee, Issuer, or any other party regarding any default by a Borrower, and shall maintain ongoing contact with Fannie Mae regarding the status of the Credit Enhancement Mortgage Loan by submitting a Non-Monetary Default Borrower Request in the MAMP.

418.04 Multifamily Affordable Housing (MAH) Properties

The Servicer must collect annual compliance documentation in the form of:

- for an MAH Property with Sponsor-Initiated Affordability, certifications from the Borrower and Administering Agent of compliance with the Sponsor-Initiated Affordability Agreement; or
- for any other MAH Property, the annual recertification of the Property’s compliance with the Affordable Regulatory Agreement from the agency or entity that imposed any applicable rent or occupancy restrictions or, if not available, an explanation of why it is not available.

The Servicer must immediately submit a Non-Monetary Default Borrower Request in the MAMP to notify Multifamily Asset Management if this documentation reveals any event of default or noncompliance with the applicable:

- Sponsor-Initiated Affordability Agreement; or
- Affordable Regulatory Agreement.

The Servicer must retain the annual compliance documentation in its Servicing File.

418.05 Low-Income Housing Tax Credits

If the Property is subject to a Low-Income Housing Tax Credit allocation, the Servicer must obtain, at least once in each calendar year (and more often if directed by Fannie Mae):

- copies of the tax and other compliance forms specified in Part III, Chapter 7: Multifamily Affordable Housing Properties; and
- Borrower certifications of the Property’s compliance with the requirements of the Internal Revenue Code regarding Low-Income Housing Tax Credits; and
- if the Low-Income Housing Tax Credits have not yet been
syndicated, monthly reports from the Borrower detailing the Borrower’s progress in syndicating the tax credit allocation until the syndication is completed.

If the Borrower indicated that the Property does not comply with all applicable regulatory requirements, the Servicer must immediately submit a Non-Monetary Default Borrower Request in the MAMP. Neither Fannie Mae nor the Servicer is responsible for determining or ensuring the Borrower’s compliance with Low-Income Housing Tax Credit requirements. The Servicer also must comply with the information requirements of Part III, Chapter 7: Multifamily Affordable Housing Properties.

### 418.06 Enhanced Resident Services

The Borrower must annually recertify the Property and submit each recertification to the Servicer within 75 days following the end of each Loan Year. The Servicer must collect the initial certification and each recertification in the Servicing File. For any recertification failure, the Servicer must promptly notify Fannie Mae through the MAMP, or such other method indicated by Fannie Mae. Additionally, the Servicer must promptly submit a Non-Monetary Default Borrower Request in the MAMP if the Property later achieves recertification. After recertification, the Servicer must then resume annual compliance monitoring at the end of each subsequent Loan Year.

### 418.07 Expanded Housing Choice

A Mortgage Loan with an Expanded Housing Choice pricing incentive requires additional monitoring. Per the Loan Documents, the Servicer must:

- receive from the Borrower a Supplemental Annual Loan Agreement Certification (Expanded Housing Choice) (Form 6620.Supplemental.Expanded Housing Choice), including:
  - a rent schedule or rent roll identifying all units where rent is paid using Housing Choice Vouchers;
  - a report for all rental applications seeking to use Housing Choice Vouchers, including:
    - the number of rental applications;
    - the current status; and
    - an explanation for all denied applications; and
  - for the first annual Certification, complete lease files for at least 25% of the tenants paying rent using Housing Choice
Vouchers;

- review Form 6620.Supplemental.Expanded Housing Choice and the rent roll for reasonableness and completeness, and notify Fannie Mae via a Borrower Request in the MAMP of any Certification issues, including non-delivery;

- within 30 days after receiving the first Form 6620.Supplemental.Expanded Housing Choice, compare the Housing Choice Voucher lease files to the rent roll and notify Fannie Mae via a Borrower Request in the MAMP of any discrepancies;

- ensure the Borrower conducts any Fair Housing training required by Fannie Mae for its employees;

- submit a Non-Monetary Default Borrower Request in the MAMP if the required Fair Housing training is not completed within the required timeframe;

- notify the Borrower in writing of any default under the Loan Documents and any required recapture of the pricing incentive;

- submit a copy of any Borrower notice for recapturing the pricing incentive via a Non-Monetary Default Borrower Request in the MAMP; and

- retain in its Servicing File, copies of:
  - Form 6620.Supplemental.Expanded Housing Choice and the rent roll;
  - the results of the rent roll and lease file review submitted with the first Form 6620.Supplemental.Expanded Housing Choice; and
  - any Borrower notices required for:
    - Fair Housing training;
    - Loan Document default; or
    - pricing incentive recapture.

Fannie Mae:

- may conduct Fair Housing testing for a Mortgage Loan delivered with an Expanded Housing Choice pricing incentive;

- will notify the Servicer if the Fair Housing testing or any other information reveals the Borrower is not complying with Part II, Chapter 1: Attributes and Characteristics, Section 101.02:
Expanded Housing Choice; and

- for any noncompliance, may:
  - require the Borrower's employees to complete Fair Housing training; and/or
  - notify the Borrower it is in default and require the Borrower to repay the pricing incentive per the Multifamily Loan Agreement and Payment Guaranty (Pricing Incentive Recapture) (Form 6020.PIR).

418.08 HAP Contract Approval and Releasing Restabilization Reserve

The Servicer is delegated the authority to:

- approve renewal of the HAP Contract during the Mortgage Loan term; and
- waive any Loan Document provision requiring the HAP Contract to be fully funded by HUD through the Mortgage Loan Maturity Date.

The Servicer must submit through the MAMP a copy of the renewed HAP Contract, and retain a copy in the Servicing File, together with any Borrower request for release of the Restabilization Reserve.

Most disbursements from a Restabilization Reserve require Fannie Mae’s approval. The Servicer is delegated the authority to approve, without Fannie Mae’s consent, a Borrower request for a final disbursement, provided:

- the Servicer has received written evidence that the HAP contract has been extended by HUD through the Maturity Date with no material changes to its terms;
- no default has occurred and is continuing under the Loan Documents; and
- the Loan Documents explicitly allow a final disbursement under these conditions.

Section 419 MH Communities with Tenant Site Lease Protections

A Mortgage Loan secured by an MH Community with Tenant Site Lease Protections requires additional monitoring. The Loan Documents require the Borrower to annually provide:

- a certified copy of the current residential MH Site Lease form;
■ a certified copy of the notice sent to all MH Site Lease tenants if the Tenant Site Lease Protections were implemented by the Rules and Regulations;

■ copies of any actual MH Site Lease requested by Lender; and

■ a certification of the actual percentage of MH Site Leases that include all required Tenant Site Lease Protections, and that no material changes have been made to the MH Community’s rules and regulations or to the MH Site Lease form.

The Servicer must:

■ confirm the Borrower’s on-going compliance with the Loan Documents;

■ if the Tenant Site Lease Protections were implemented within the MH Community’s rules and regulations, confirm:

  ■ the rules and regulations contain all Tenant Site Lease Protections and are publicly posted in the MH Community; and

  ■ each MH Site Lease tenant received written notice of all Tenant Site Lease Protections added to the rules and regulations;

■ if the Tenant Site Lease Protections were implemented within the MH Site Lease:

  ■ confirm the MH Site Lease form includes:

    ■ all Tenant Site Lease Protections; and

    ■ the required percentage of MH Site Leases (i.e., 25%, 50%, or 100%) are covered by the Tenant Site Lease Protections; and

  ■ annually audit at least 25% of the minimum percentage of MH Site Leases required per the Loan Documents (i.e., 25%, 50%, or 100%) to ensure all Tenant Site Lease Protections are included;

■ determine whether the Borrower complied with all terms of the Tenant Site Lease Protections (e.g., the Borrower only raised MH Site Lease rents after required notice);

■ retain the review of the Borrower’s certification and audit results in the Servicing File; and

■ notify Multifamily Loss Mitigation if the Borrower fails to certify compliance, or the MH Site Lease audit discloses potential
noncompliance.

Section 420  Single Asset Entity Conversion

If the Loan Documents require the Borrower to convert into a single asset entity that complies with Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302.01: Single-Asset Entity by a certain date, the Servicer is delegated the authority to:

- grant a one-time extension of the date by up to 90 days;
- determine whether the extension requires an amendment to the Multifamily Loan Agreement; and
- document it in any form that the Servicer deems legally enforceable.

Section 421  Loan Document Amendments

Provided the change does not violate the Disclosure Documents or the Fannie Mae Master Trust Agreement, the Servicer is delegated the authority to modify the Loan Documents for a Portfolio Mortgage Loan to:

- align with the approved terms for a Supplemental Mortgage Loan; or
- cross-default and/or cross-collateralize the Portfolio Mortgage Loan with a subsequent Mortgage Loan.

This delegated authority includes executing all Loan Document amendments related to:

- a subordinate lien, including any Mortgage Loan modification for a Supplemental Mortgage Loan with a confirmed Commitment;
- cross-collateralizing and/or cross-defaulting a Pre-Existing Mortgage Loan with a Supplemental Mortgage Loan with a confirmed Commitment; and
- cross-collateralizing and/or cross-defaulting a first Lien Mortgage Loan with another first Lien Mortgage Loan (e.g., for a phased property), provided that cross-collateralization and cross-default were contemplated in the Loan Documents for the Portfolio Mortgage Loan and there is a confirmed Commitment for the second first Lien Mortgage Loan.

Section 422  Maturing Mortgage Loans
The Servicer must establish a written policy for maturing Mortgage Loans, including:

- overall monitoring responsibilities;
- criteria for handoffs between functional groups (e.g., Special Asset Management, Special Credits, etc.);
- Fannie Mae reporting;
- sending Borrower maturity notification letters; and
- determining the Mortgage Loan’s refinance eligibility.

On a monthly basis, beginning at least 24 months before each Mortgage Loan’s Maturity Date, the Servicer must evaluate the Property’s operating performance to determine the likelihood that the Mortgage Loan UPB can be refinanced based on the current cap rate, and the DSCR and NCF from the Property’s most recent annual financial statement.

Participants from the Servicer’s underwriting, asset management, portfolio management, and finance teams must coordinate to categorize each Mortgage Loan as either:

- “Meets Criteria” = the Mortgage Loan qualifies for refinancing based on the currently published underwriting criteria of Fannie Mae or a third party; or
- “Does Not Meet Criteria” = the Mortgage Loan does not qualify for refinancing based on the currently published underwriting criteria of Fannie Mae or a third party.

For each Mortgage Loan categorized as “Does Not Meet Criteria”, the Servicer must:

- review the Property’s quarterly operating statements and analyze the operating expenses (especially repairs & maintenance and capital expenses) to assess whether the Borrower is prudently managing the Property; and
- work with the Borrower and Fannie Mae to ensure the Borrower has a reasonable payoff plan.

The Servicer must send the following maturity notification letters to
the Borrower:

- 18 months before the Mortgage Loan Maturity Date, send the first maturity notification letter notifying the Borrower of the upcoming Maturity Date (18 Month Notice to Borrower – Choice Refinance Loans (Form 4217)).

- 12 months before the Mortgage Loan Maturity Date, send the applicable second maturity notification letter (12 Month Notice to Borrower Marketing Oriented – Choice Refinance Loans (Form 4218) or 12 Month Notice to Borrower – In Place Loans (Form 4219)):
  - notifying the Borrower of the upcoming Maturity Date;
  - providing Servicer contact information; and
  - requesting a detailed payoff plan.

- 6 months before the Mortgage Loan Maturity Date, send the 6 Month Notice to Borrower – In Place Loans (Form 4220):
  - notifying the Borrower of the upcoming Maturity Date;
  - requesting proof of a payoff plan (e.g., a commitment letter from another lender or sale contract); and
  - advising the Borrower that the Mortgage Loan will be in default if not paid off or refinanced.

Within 6 months of the Maturity Date, the Servicer must aggressively pursue a maturity solution for any Mortgage Loan that “Does Not Meet Criteria” until the Borrower provides written proof of a payoff plan, which may include a certified escrow letter, contact information for the new lender with appropriate follow-up by the Servicer, or other reasonable evidence.

422.04  Fannie Mae Communications

On the first Business Day of each month, the Servicer must submit a Maturing Loan Report using the mandated template to Multifamily Maturity Management with information on each Mortgage Loan maturing within the next 24 months (or advising that no Mortgage Loans are maturing within the next 24 months), and categorizing each as “Meets Criteria” or “Does Not Meet Criteria” in the Performance Rating column. The Servicer must also update the Maturing Loan Report as new information becomes available with each monthly submission.

The comments section of the Maturing Loan Report must include, at a minimum:
- a report of discussions with the Borrower (e.g., potential new lender, term of new loan, proof of payoff plan received);
- the anticipated payoff date; and
- whether the Mortgage Loan is likely or not to refinance, and the rationale.

All other Fannie Mae notices related to maturing Mortgage Loans, including default notices, must be sent to Multifamily Maturity Management.
Chapter 5  Surveillance

Section 501  General

Each Property securing a Mortgage Loan must be monitored by the Servicer to ensure that the Borrower continually manages and maintains the Property in accordance with the requirements of the applicable Loan Documents and the Guide. The Servicer is required to:

- perform inspections of the Property;
- perform a financial analysis of the operations of Property; and
- report the results of such inspections and financial evaluations to Fannie Mae as required by this Chapter.

The financial analysis of operations should include an annual and, if required for that Asset Class, quarterly analysis of the financial performance of the Property.

Property inspections generally should include:

- an on-site inspection;
- a current overall Property rating based on the condition of the Property as of the date of the inspection (and not on projected or budgeted repairs);
- an evaluation of the Property’s market, submarket, and neighborhood; and
- an analysis of the competitive position of the Property.

Based upon the results of its inspections and financial analysis, the Servicer must evaluate the performance of the Property, and identify any Property that warrants special attention due to management or maintenance issues, or any financial decline that could materially adversely affect the collateral or performance of the Mortgage Loan. If follow-up action is required, the Servicer must notify Fannie Mae as provided in this Chapter, and initiate appropriate actions with the Borrower.

Section 502  Property Inspections

502.01  MBA Standard Inspection Form

The Servicer must use the:

- Multifamily Catastrophic Loss Inspection form (Form 4261) for any Catastrophic Event inspection; or
- MBA Standard Inspection Form for all other Properties.
For a Green Rewards Mortgage Loan, the Servicer must also submit the Green Rewards Verification Inspection Form (Form 4221) per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 408.03I: Green Rewards Efficiency Measure Verification.

On the MBA Standard Inspection Form, you must choose the “Fannie Mae Inspection” option on the “Tools” tab, and complete the following tabs, including assigning a rating per the Fannie Mae Ratings scale:

- General Information Tab (“General Info”);
- Physical Condition & Deferred Maintenance Tab (“Physical Condition & DM”);
- Photos Tab (“Photos”);
- Rent Roll Tab (“Rent Roll”);
- Maps Tab (“Maps”);
- Management Interview Tab (“Mgmt Interview”);
- Multifamily Tab (“Multifamily”);
- Fannie Mae Assessment Addendum (“Fannie Mae Assmt Addendum”); and
- For Seniors Housing properties only: Seniors Supplement Tab (“Senior Supplement”).

502.02 Mortgage Loans with Property Condition Concerns (Not Limited to Watchlist Loans)

Regardless of whether or not the Mortgage Loan is listed on either the Servicer Watchlist or the Fannie Mae Watchlist, the Servicer must inform Multifamily Inspections and Multifamily Watchlist within 10 Business Days after becoming aware of any Mortgage Loan with:

- a Property inspection rating of 4 or 5 as shown on the Fannie Mae Assessment Addendum (“Fannie Mae Assmt Addendum”) tab of the MBA Standard Inspection Form;
- Property repairs required by the Loan Documents not completed timely;
- any significant deferred maintenance;
- any non-significant deferred maintenance that has not been corrected within 12 months after notifying the Borrower of such maintenance obligation; or
- life safety concerns.

In addition, if any of the above Property condition concerns are present, the Servicer must:

- reinstate any suspended requirements for the Completion/Repair Escrow or the Replacement Reserve unless the rating of 4 or 5 results from a casualty loss (see Part V, Chapter 5: Surveillance, Section 502.06F: Analysis of Collateral);

- inspect the Property as frequently as necessary to ensure the Borrower is resolving outstanding deferred maintenance items; and

- prior to ordering a PCA (excluding regularly-scheduled PCAs required by the Loan Documents), submit a written request for approval to Multifamily Watchlist.

### 502.03 Property Inspection Protocols

The frequency of required Property inspections depends on the following:

- the Mortgage Loan’s Fannie Mae risk rating;
- the Mortgage Loan amount at the Mortgage Loan Origination Date; and
- other criteria outlined in the table below.

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<thead>
<tr>
<th>PROPERTY INSPECTION PROTOCOL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protocol if Original Mortgage Loan Amount is Greater than $30 million</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mortgage Loan Type</th>
<th>Fannie Mae Mortgage Loan Rating</th>
<th>Inspection Frequency</th>
<th>Min% of Total Units to be Inspected&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Min/Max Number of Units to be Inspected&lt;sup&gt;2&lt;/sup&gt;</th>
<th>Min Required Photos</th>
<th>Third-Party or In-House Inspector</th>
</tr>
</thead>
</table>

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## PROPERTY INSPECTION PROTOCOL

<table>
<thead>
<tr>
<th>Mortgage Loan Type</th>
<th>Fannie Mae Mortgage Loan Rating</th>
<th>Inspection Frequency</th>
<th>Min % of Total Number to be Inspected</th>
<th>Min/Max Number of Units to be Inspected</th>
<th>Min Required Photos</th>
<th>Third-Party or In-House Inspector</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Mortgage Loans, other than Seniors Housing Mortgage Loans and Mortgage Loans secured by Rent-Stabilized Properties</td>
<td>Pass or Special Mention</td>
<td>Annual Full Inspection</td>
<td>5%</td>
<td>5/15</td>
<td>15</td>
<td>Third-Party or In-House</td>
</tr>
<tr>
<td>Substandard or Doubtful</td>
<td>Annual Full Inspection</td>
<td>10%</td>
<td>10/20</td>
<td>15</td>
<td>In-House Only</td>
<td></td>
</tr>
<tr>
<td>Seniors Housing Mortgage Loans</td>
<td>Pass or Special Mention</td>
<td>Annual Full Inspection</td>
<td>5%</td>
<td>5/15</td>
<td>15</td>
<td>Third-Party or In-House</td>
</tr>
<tr>
<td>Substandard or Doubtful</td>
<td>Annual Full Inspection</td>
<td>10%</td>
<td>10/20</td>
<td>15</td>
<td>In-House Only</td>
<td></td>
</tr>
<tr>
<td>Mortgage Loans secured by Rent-Stabilized Properties</td>
<td>Pass or Special Mention</td>
<td>Annual Full Inspection</td>
<td>5%</td>
<td>5/15</td>
<td>15</td>
<td>Third-Party or In-House</td>
</tr>
<tr>
<td>Substandard or Doubtful</td>
<td>Annual Full Inspection</td>
<td>10%</td>
<td>10/20</td>
<td>15</td>
<td>In-House Only</td>
<td></td>
</tr>
</tbody>
</table>

**Protocol if Original Mortgage Loan Amount is Greater than $6 million and up to $30 million**

(NOTE: When the inspection protocol below is based, in part, on the DSCR, the DSCR must be based on the most recent annual financial statement submitted to Fannie Mae. A Property with a most recent inspection rating of 4 or 5 must have an Annual Full Inspection, regardless of the DSCR test outlined below.)
| All Mortgage Loans other than Seniors Housing Mortgage Loans and Mortgage Loans secured by Rent-Stabilized Properties | Pass or Special Mention; DSCR ≥ 1.35 or Co-op DSCR ≥ 1.00 | Annual Full Inspection | 5% | 5/15 | 15 | Third-Party or In-House |
| All Mortgage Loans other than Seniors Housing Mortgage Loans and Mortgage Loans secured by Rent-Stabilized Properties | Pass or Special Mention; DSCR < 1.35 or Co-op DSCR < 1.00 | Annual Full Inspection | 5% | 5/15 | 15 | Third-Party or In-House |
| Seniors Housing Mortgage Loans | Pass or Special Mention | Annual Full Inspection | 5% | 5/15 | 15 | Third-Party or In-House |
| Seniors Housing Mortgage Loans | Substandard or Doubtful | Annual Full Inspection | 10% | 10/20 | 15 | In-House Only |
| Mortgage Loans secured by Rent-Stabilized Properties | Pass or Special Mention | Annual Full Inspection | 5% | 5/15 | 15 | Third-Party or In-House |
| Mortgage Loans secured by Rent-Stabilized Properties | Substandard or Doubtful | Annual Full Inspection | 10% | 10/20 | 15 | In-House Only |
| All Maturing Mortgage Loans | All Ratings | Full Inspection due within the 12 months prior to Maturity Date<sup>1,2</sup> | | | | |

Protocol if Original Mortgage Loan Amount is $6 million or Less

(NOTE: A Property with a most recent inspection rating of 4 or 5 must have an Annual Full Inspection. This does not apply to any Mortgage Loan with an original principal amount of less than $750,000)
# Property Inspection Protocol

<table>
<thead>
<tr>
<th>Mortgage Loan Type</th>
<th>Fannie Mae Mortgage Loan Rating</th>
<th>Inspection Frequency</th>
<th>Min% of Total Units to be Inspected&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Min/Max Number of Units to be Inspected&lt;sup&gt;2&lt;/sup&gt;</th>
<th>Min Required Photos</th>
<th>Third-Party or In-House Inspector</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Mortgage Loans other than Seniors Housing Mortgage Loans and Mortgage Loans secured by Rent-Stabilized Properties</td>
<td>Pass or Special Mention, and original Mortgage Loan amount &lt; $750,000</td>
<td>Walk Around every 5 years</td>
<td>N/A</td>
<td>N/A</td>
<td>10</td>
<td>Third-Party or In-House</td>
</tr>
<tr>
<td></td>
<td>Substandard or Doubtful</td>
<td>Annual Full Inspection</td>
<td>10%</td>
<td>2/5</td>
<td>10</td>
<td>In-House Only</td>
</tr>
<tr>
<td>Seniors Housing Mortgage Loans</td>
<td>Pass or Special Mention</td>
<td>Annual Full Inspection</td>
<td>5%</td>
<td>5/15</td>
<td>15</td>
<td>Third-Party or In-House</td>
</tr>
<tr>
<td></td>
<td>Substandard or Doubtful</td>
<td>Annual Full Inspection</td>
<td>10%</td>
<td>10/20</td>
<td>15</td>
<td>In-House Only</td>
</tr>
<tr>
<td>Mortgage Loans secured by Rent-Stabilized Properties</td>
<td>Pass or Special Mention</td>
<td>Annual Full Inspection</td>
<td>5%</td>
<td>5/15</td>
<td>15</td>
<td>Third-Party or In-House</td>
</tr>
<tr>
<td></td>
<td>Substandard or Doubtful</td>
<td>Annual Full Inspection</td>
<td>10%</td>
<td>10/20</td>
<td>15</td>
<td>In-House Only</td>
</tr>
<tr>
<td>All Maturing Mortgage Loans</td>
<td>All Ratings</td>
<td>Full Inspection due within 12 months prior to Maturity Date&lt;sup&gt;3&lt;/sup&gt;</td>
<td>Follow requirements for applicable Mortgage Loan type.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<sup>1</sup> Min% of Total Units to be Inspected

<sup>2</sup> Min/Max Number of Units to be Inspected

<sup>3</sup> Full Inspection due within 12 months prior to Maturity Date
PROPERTY INSPECTION PROTOCOL

1 The number of units to be inspected based on the Minimum Percentage Requirement should not exceed the Maximum Number of Units.

2 For a Property with 10 units or less, the minimum number of units to be inspected is 2 units. This minimum unit count is for occupied and vacant units. If the Property contains any down units, then all down units must be inspected in addition to the occupied and vacant units.

3 If the next scheduled inspection due date for a Property is less than six months prior to the Maturity Date, then the next scheduled inspection due date shall be that date which is six months prior to the Maturity Date.

NOTE: If a Property consists of Non-Contiguous Parcels or scattered sites:

• all buildings on each separate parcel or site must be inspected;
• the total required number of units based on the above protocol must be allocated among each parcel in approximately the same proportion as the number of units at each parcel to the total number of units at the Property; and
• the units to be inspected at each parcel must be selected randomly, according to the above inspection protocol.

502.04 Property Inspection Frequency; Submission of Property Inspection Forms

502.04A Timing of Property Inspections

Property inspections must be performed at the frequency per Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocols, and must be completed in sufficient time for the Property inspection form to be submitted by the “Submission Due Date”.

To facilitate more efficient scheduling of the physical inspections for Properties, the Servicer may request an extension of up to 60 days from the “Submission Due Date”. The extension request will be automatically approved so long as:

• it is submitted prior to the original “Submission Due Date” by using the “Modification Request” tab within the particular work item in the MAMP;
• an extension was not already granted for the same Property inspection requirement;
• the Mortgage Loan is not rated Substandard or Doubtful, nor has a Property condition rating of:
  • 4 or 5 on the most recent inspection; or
  • 3 on an inspection more than one year old; and
the extended “Submission Due Date” is not within the 6 months prior to the Maturity Date.

502.04B Submission of Property Inspection Forms

All Property inspection forms must be submitted to Fannie Mae through the MAMP. Origination inspections must be submitted within 45 days after the date the Mortgage Loan was purchased by Fannie Mae. Thereafter, each required Property inspection form must be submitted within 60 days after the date of the actual Property inspection, and no later than the “Submission Due Date” shown in the MAMP, unless an extension was granted by Fannie Mae. The Servicer must resolve any issues identified by Fannie Mae during its review of the Property inspection reports in a timely manner.

502.05 Property Inspector Qualifications

502.05A Minimum Inspector Experience

Inspections must be performed by either a qualified third party or Servicer staff as specified in the Property Inspection Protocol table in Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocols. The Servicer is responsible for ensuring that the inspector has at least the minimum level of experience required to conduct a Fannie Mae inspection. At a minimum, the inspector must have completed an acceptable “Property Inspection Risk Management” course or other acceptable training course, including the courses provided by the MBA, and must have previous inspection experience as follows:

<table>
<thead>
<tr>
<th>Mortgage Loan Rating</th>
<th>Minimum Previous Inspection Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pass and Special Mention Mortgage Loans (except Seniors Housing Mortgage Loans)</td>
<td>10 multifamily property inspections</td>
</tr>
<tr>
<td>Substandard and Doubtful Mortgage Loans (except Seniors Housing Mortgage Loans)</td>
<td>25 multifamily property inspections</td>
</tr>
<tr>
<td>Seniors Housing Mortgage Loans</td>
<td>10 Seniors Housing property inspections</td>
</tr>
</tbody>
</table>

502.05B Third-Party Inspector Requirements
If the Property Inspection Protocol table in Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocols permits a third-party inspector, the third-party inspector cannot reassign responsibilities to another person or entity without the Servicer’s approval. Any third-party inspector must:

- have no financial interest in the Property to be inspected;
- demonstrate experience in multifamily real estate property inspections;
- be experienced in the market in which the Property is located; and
- either:
  - possess a professional certification from any one of the following:
    - Real Estate Assessment Center for HUD as a Certified Home Inspector;
    - American Society of Home Inspectors ("ASHI");
    - International Association of Certified Home Inspectors ("InterNACHI"); or
    - State certified home inspector;
  - be a registered architect;
  - be a civil engineer; or
  - have successfully completed an acceptable in-person training course in lieu of the above. (Note: On-line attendance at such course is not acceptable.) Acceptable training courses include the Fannie Mae approved inspection course provided by the MBA.

Fannie Mae reserves the right, in its sole discretion, to notify the Servicer that a third-party inspection firm is no longer acceptable to Fannie Mae.

### 502.06 Content of Property Inspections

#### 502.06A Number of Units to be Inspected; “Down” Units

The requirements specified in the Property Inspection Protocol table in Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocols are minimum numbers of occupied and vacant units that must be inspected. In addition to occupied and vacant units, all “down” units (i.e., units that are not rentable at the current time, or that cannot be
rented in the normal course of business) must be inspected as part of the Property inspection. If the Property inspector notes substantial physical concerns that warrant further investigation, the Servicer must determine whether it is prudent to inspect additional units over and above the number of units required to be inspected.

502.06B Selection of Units to be Inspected

The MAMP will indicate, for each Property, the number of units required to be inspected. When units are required to be inspected, the Servicer must determine the appropriate combination of vacant and occupied units for inspection. The units selected for inspection must meet the following requirements:

- a minimum of 50% of all units inspected must be vacant units (if available);
- at least 2 occupied units must be inspected; and
- if selected, the interior of each unit must be inspected.

The Property inspector, not the Property manager, must select which vacant and occupied units will be inspected.

502.06C Photographs

The Property Inspection Protocol table in Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocols indicates, for each Asset Class, the minimum number of photographs required to be submitted with the Property inspection form. Such photographs must include views and identifying captions of:

- signage;
- typical building front;
- site office and clubhouse (if applicable);
- Property frontage;
- apartment interior;
- amenities;
- major building systems;
- deferred maintenance and life safety items;
- extraordinary repair items or items requiring capital expenditure; and
- all critical or substantial issues noted in the inspection report.
502.06D Consultation with Property Manager and Staff

For Property inspections other than walk-around inspections, the Servicer must interview the Property manager and other on-site staff to obtain information regarding the Property's condition and performance, and to confirm that any life/safety repair and deferred maintenance items noted on the most recent Property inspection have been corrected.

502.06E Analysis of Market

The Servicer must evaluate the neighborhood, submarket, and market in which the Property is located to determine material shifts in demographics and real estate conditions. The Servicer must also evaluate competitive properties to determine any changes in the competitive position of the Property since the initial underwriting or the most recent Property inspection.

502.06F Analysis of Collateral

If the Servicer determines that repair or maintenance is required, the Servicer must notify the Borrower according to the notice provisions of the Loan Documents. The notice must:

- be sent within 45 days from the date of the actual inspection;
- identify the repair or maintenance issues;
- include any accompanying photos; and
- direct the Borrower to undertake timely corrective actions to remedy the issues.

The Servicer must follow-up until the work has been successfully completed. If the Borrower fails to perform all repairs or maintenance required by the Servicer within a specified period of time, the Servicer must notify Multifamily Inspections in writing with a recommendation for resolution.

The Property inspection overall rating must be set to 4 (or 5 depending on severity or other existing issues), if:

- a casualty loss causes damage in an amount equal to the lesser of (i) 25% of the current UPB, or (ii) $1,000,000; or
- 10% or more of the units are down due to any reason.

Setting the rating to 4 (or 5, as applicable) will not automatically put the Mortgage Loan on Fannie Mae’s Watchlist, nor will it trigger the requirement (i) for an Action Plan; or (ii) to reinstate the Replacement Reserve, as long as:

- no other performance related issues otherwise increase the
credit risk; and

- the Servicer expects sufficient insurance proceeds will be available to restore the Property to its original condition.

If Fannie Mae determines that a Property inspection is inadequate, Fannie Mae reserves the right to require a new Property inspection be performed by either the Servicer or a third party designated by Fannie Mae at the expense of the Servicer.

502.06G Life Safety Issues

If the inspection is conducted by a third-party inspector and reveals any Property life safety issues, the inspection firm must notify the Servicer of such issues within 3 Business Days after completion of the inspection.

502.07 Servicer Property Inspection Quality Control Requirements

502.07A Review of Inspection Forms

All Property inspection forms, whether prepared by third parties or by the Servicer, must be reviewed internally by the Servicer prior to submission to Fannie Mae.

502.07B Quality Control Program

Servicers are required to have a quality control program in place to annually review the quality of the Property inspections performed by third-party inspectors. The Servicer must be prepared to show the evidence and results of such quality control program to Fannie Mae upon request.

502.08 Retention of Inspection Forms

All Property inspection forms must be maintained in the Servicing File for at least 2 inspection cycles and made available for verification by Fannie Mae upon request.

502.09 Other Property Inspections; Inspection Fees

In addition to performing the Property inspections required in this Section, Fannie Mae, in its sole discretion, may require that the Servicer perform additional Property inspections whenever circumstances warrant. In addition, the Servicer is expected to perform Property inspections as part of its regular asset management responsibilities whenever the Servicer determines it prudent to do so.

The Servicer may charge the Borrower a reasonable fee for performing Property inspections provided that charging a fee:
is permitted under the Loan Documents or another written agreement with the Borrower; and

is not specifically precluded by Fannie Mae.

Section 503 Quarterly and Annual Financial Analysis of Operations

503.01 Electronic Reporting of Financial Analysis of Operations

The Servicer must submit quarterly and annual Financial Analysis of Operations reports (Form 4254) to Fannie Mae for each Property in accordance with the requirements of this Section. All reports are found on, and must be submitted electronically through, the MAMP.

503.02 Request for Waivers of Quarterly and Annual Reporting on Financial Analysis of Operations

503.02A Waivers for Reasons Other Than Unresponsive Borrowers

The Servicer must submit a waiver through the MAMP for each Property if a Financial Analysis of Operations (Form 4254 or Form 4254.Seniors) is required by this Section, and:

- the Mortgage Loan was purchased from a Lender whose Lender Contract specifies that the collection of Property operating statements for any Mortgage Loan is not required;
- the Loan Documents either do not permit the Lender to collect, or require the Borrower to submit, financial reports; or
- the Mortgage Loan:
  - was liquidated in the current quarter (for waivers of quarterly reporting) or year (for waivers of annual reporting), prior to the Financial Analysis of Operations submission deadline;
  - was delivered under a Forward Commitment and has not yet converted to a permanent loan;
  - was defeased;
  - is subject to FHA or HUD risk sharing;
  - is being managed by Fannie Mae’s Special Asset Management; or
  - was acquired by Fannie Mae in the current reporting year and less than 6 months of operating data is available for the Property.
503.02B Waivers due to Unresponsive Borrowers

If the Servicer is unable to submit an annual or quarterly Financial Analysis of Operations (Form 4254 or Form 4254.Seniors) report for a Property because the Borrower failed to provide the requested operating statements, before submitting a waiver request, the Servicer should:

- for the annual Financial Analysis of Operations, wait until 6 months have passed from the submission due date to submit a waiver request in the MAMP; and
- for a quarterly Financial Analysis of Operations, wait until the following quarterly submission due date to submit a waiver request in the MAMP.

Delaying the submission of the waiver request will provide additional time to obtain and submit the operating statement data, if received. If the Borrower fails to respond to at least 3 written requests within the applicable waiting period specified above, the waiver request should then be submitted, with the following condition:

"Unresponsive Borrower - The Borrower was contacted in writing at least 3 times and failed to provide the requested operating statements."

Fannie Mae will review the waiver requests, and will notify the Servicer if additional information is required. If quarterly or annual operating statements are received after a waiver has been granted, the Servicer must submit the Financial Analysis of Operations report (Form 4254 or Form 4254.Seniors) upon receipt of such operating data.

503.03 Quarterly Reporting on Financial Analysis of Operations

503.03A Quarterly Reporting Requirements

The Servicer must submit detailed quarterly operating statements for each Property, normalized to account for any seasonal variations in income and expenses, in accordance with the requirements set forth for each Asset Class in the tables below. The reports must be submitted through the MAMP. All submitted operating statements will undergo automated quality control testing, and any quality control issues identified must be resolved timely.

The quarterly operating statements must reflect the actual physical occupancy level for the Property as of the end of each quarter, based on the most recently available rent roll. When quarterly reports are required, the Servicer must provide actual expenses, and must normalize certain expense items, including, but not limited to, real estate taxes, casualty insurance, Replacement Reserves and management fees, consistent with the guidance provided in the MAMP for submitting annual financial statements. The
Servicer must explain any seasonal data discrepancies, and provide comments if any of the following are observed:

- a variance of greater than 20% from the same reporting period in the prior year of any of Effective Gross Income, total operating expenses, Gross Potential Rent, Private Pay, Medicare/Medicaid, Repairs and Maintenance, Utilities, Water and Sewer, Real Estate Taxes and Property Insurance;
- a variance in physical occupancy of greater than 10% from the immediately preceding reporting period;
- a change in the Property's tax-exempt status (if applicable);
- a change in the required P&I payments during a reporting period (e.g., interest-only to amortizing);
- management fees of less than 3%;
- a change in any other pertinent information related to the Property financial analysis; or
- the Mortgage Loan is on the Fannie Mae Watchlist.

Quarterly financial reporting is not required, and no waiver need be submitted, for any Mortgage Loan if it is secured by a Cooperative Property, or it is a Small Mortgage Loan, unless such Cooperative Property or Small Mortgage Loan is on the Fannie Mae Watchlist.

**503.03B**  Quarterly Submission Requirements by Asset Class

1. **All Asset Classes (except Seniors Housing Properties, Watchlist Properties, Credit Facilities, and Bulk Deliveries).** The Servicer must submit detailed quarterly operating statements 75 days after the end of the second and third quarters, as set forth below.

<table>
<thead>
<tr>
<th>All Asset Classes except Seniors Housing, Watchlist Properties, Credit Facilities, and Bulk Deliveries</th>
<th>Required Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarter</td>
<td>Due Date*</td>
</tr>
</tbody>
</table>

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### All Asset Classes except Seniors Housing, Watchlist Properties, Credit Facilities, and Bulk Deliveries

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Due Date*</th>
<th>Property with a 12/31 Fiscal Year End</th>
<th>Property with other than a 12/31 Fiscal Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>Second</td>
<td>September 15</td>
<td>Financial operating statements for the period from January 1 through June 30</td>
<td>6 months year to date operating data</td>
</tr>
<tr>
<td>Third</td>
<td>December 15</td>
<td>Financial operating statements for the period from January 1 through September 30</td>
<td>9 months year to date operating data</td>
</tr>
</tbody>
</table>

*If any due date is not a Business Day, then the submission may be made on the next Business Day.

2. **Seniors Housing Properties.** For Seniors Housing Properties, the Servicer must submit detailed quarterly operating statements 75 days after the end of the first, second, third and fourth quarters, as set forth below.

### Seniors Housing Properties

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Due Date*</th>
<th>Property with a 12/31 Fiscal Year End</th>
<th>Property with other than a 12/31 Fiscal Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>June 15</td>
<td>Financial operating statements for the period from January 1 through March 31</td>
<td>Trailing 3 months operating data</td>
</tr>
</tbody>
</table>
### Seniors Housing Properties

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Due Date*</th>
<th>Property with a 12/31 Fiscal Year End</th>
<th>Property with other than a 12/31 Fiscal Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>Second</td>
<td>September 15</td>
<td>Financial operating statements for the period from April 1 through June 30</td>
<td>Trailing 3 months operating data</td>
</tr>
<tr>
<td>Third</td>
<td>December 15</td>
<td>Financial operating statements for the period from July 1 through September 30</td>
<td>Trailing 3 months operating data</td>
</tr>
<tr>
<td>Fourth</td>
<td>March 15</td>
<td>Financial operating statements for the period from October 1 through December 31</td>
<td>Trailing 3 months operating data</td>
</tr>
</tbody>
</table>

*If any due date is not a Business Day, then the submission may be made on the next Business Day.

3. **Watchlist Properties.** For Watchlist Properties (including any Mortgage Loan secured by a Cooperative Property or any Small Mortgage Loans), the Servicer must submit detailed quarterly operating statements 90 days after the end of the first quarter, and 75 days after the end of the second and third quarters, as set forth below.
### Watchlist Properties

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Due Date*</th>
<th>Property with a 12/31 Fiscal Year End</th>
<th>Property with other than a 12/31 Fiscal Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>June 30</td>
<td>Financial operating statements for the period from January 1 through March 31</td>
<td>3 months year-to-date operating data</td>
</tr>
<tr>
<td>Second</td>
<td>September 15</td>
<td>Financial operating statements for the period from January 1 through June 30</td>
<td>6 months year-to-date operating data</td>
</tr>
<tr>
<td>Third</td>
<td>December 15</td>
<td>Financial operating statements for the period from January 1 through September 30</td>
<td>9 months year-to-date operating data</td>
</tr>
</tbody>
</table>

*If any due date is not a Business Day, then the submission may be made on the next Business Day.

4. **Credit Facilities and Bulk Deliveries.** For Credit Facilities and Bulk Deliveries, the Servicer must submit both the detailed quarterly operating statements and the Deal Level Structured Transaction (BD/CF) Quarterly report, including the Structured Facilities Monitoring Narrative (**Form 4801**), Spreadsheet (**Form 4802**), and any other relevant documents, 75 days after the end of the first, second, third, and fourth quarters, as set forth below.
<table>
<thead>
<tr>
<th>Quarter</th>
<th>Due Date*</th>
<th>Property with a 12/31 Fiscal Year End</th>
<th>Property with other than a 12/31 Fiscal Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>June 15</td>
<td>Financial operating statements for the period from January 1 through March 31, and deal level reports</td>
<td>Trailing 3 months operating data</td>
</tr>
<tr>
<td>Second</td>
<td>September 15</td>
<td>Financial operating statements for the period from April 1 through June 30, and deal level reports</td>
<td>Trailing 3 months operating data</td>
</tr>
<tr>
<td>Third</td>
<td>December 15</td>
<td>Financial operating statements for the period from July 1 through September 30, and deal level reports</td>
<td>Trailing 3 months operating data</td>
</tr>
<tr>
<td>Fourth</td>
<td>March 15</td>
<td>Financial operating statements for the period from October 1 through December 31, and deal level reports</td>
<td>Trailing 3 months operating data</td>
</tr>
</tbody>
</table>

*If any due date is not a Business Day, then the submission may be made on the next Business Day.
503.04 Annual Reporting on Financial Analysis of Operations

The Servicer must submit a Financial Analysis of Operations (Form 4254 or Form 4254.Seniors) annually to Fannie Mae for each Property for the previous calendar year or, if applicable, for the fiscal year ending in the previous calendar year.

503.04A Annual Financial Analysis Reporting Requirements

The Servicer must submit detailed operating statements for each Property, normalized to account for any seasonal variations in income and expense. The annual operating statements must reflect the actual physical occupancy rate for the Property as of the end of the reporting period, based on the most recent available rent roll. The Servicer must provide actual expenses and must also normalize certain expense items, including, but not limited to, real estate taxes, property casualty insurance, Replacement Reserves, and property management fees. The Servicer must provide comments if any of the following are observed:

- a variance of greater than 20% from the prior year of any of Effective Gross Income, total operating expenses, Gross Potential Rent, Private Pay, Medicare/Medicaid, Repairs and Maintenance, Utilities, Water and Sewer, Real Estate Taxes and Property Insurance;
- a variance in physical occupancy of greater than 10% from the reporting period immediately preceding the current reporting period;
- a change in the Property’s tax-exempt status (if applicable) during the year;
- a change in the required P&I payments during the year (e.g., interest-only to amortizing);
- management fees of less than 3%;
- a change in any other pertinent information related to the Property financial analysis; or
- the Mortgage Loan is on the Fannie Mae Watchlist.

503.04B Submitting the Annual Financial Analysis of Operations

The following steps must be taken to complete and submit the annual Financial Analysis of Operations report (Form 4254 or Form 4254.Seniors) to Fannie Mae:

1. For a Mortgage Loan purchased by Fannie Mae on or before June 30 in any given year, the Annual Financial Analysis of Operations (Form 4254 or Form 4254.Seniors) covering that first year must be submitted
to Fannie Mae by June 1 of the following year, and the Servicer must annualize the available operating data to represent a full 12 months of operations. If the Mortgage Loan was purchased by Fannie Mae on or after July 1 in any given year, the Servicer is not required to submit an annual Financial Analysis of Operations (Form 4254 or Form 4254.Seniors) until June 1 of the second year after purchase in order to collect 12 months of actual operating data.

For all subsequent years, the Servicer must submit an annual operating statement for each Property to Fannie Mae on or before June 1 or, if applicable, within 150 days following the fiscal year-end for any Property owned by a Borrower with a non-calendar fiscal year. For any Borrower with a non-calendar fiscal year, the Servicer must submit a data change request through the MAMP requesting a change to the Borrower’s fiscal year end.

2. The Servicer must analyze the operating statements submitted by the Borrower in accordance with the Multifamily Analysis of Operations Form 4254 and Form 4254.Seniors Line Item Definitions (Form 4254.DEF), which is located at https://multifamily.fanniemae.com or the MAMP. The Servicer must indicate on the Borrower's operating statements the line item under which each of the Borrower's income and expense line items is included.

3. For each Property, the Servicer must access the MAMP and provide the pertinent income, expense, and other required data for the current reporting period. All submitted operating statements will undergo automated quality control testing, and any issues must be resolved timely.

503.04C Annual Review

Fannie Mae will notify the Servicer which Mortgage Loans are subject to the annual review. Within 15 Business Days after receiving notice, the Servicer must submit through the MAMP for each Mortgage Loan under review:

- the Borrower’s operating statements, with each income and expense line item coded by the Servicer according to the line item definitions in the Multifamily Analysis of Operations Form 4254 and Form 4254.Seniors Line Item Definitions (Form 4254.DEF);
- an escrow activity reconciliation of the Borrower’s operating statement data; and
- any other documentation requested by Fannie Mae.

503.04D Asset Management Testing

The Multifamily Asset Management team tests compliance with many areas of the Asset Management process to ensure Servicers are
properly adhering to Fannie Mae’s requirements. Testing results are communicated through the Lender Assessment process, and recommendations, requirements for corrective action, or best practice enhancements are proposed and monitored through completion.

503.04E  Maintenance of Records

The Servicer must maintain the Borrower’s operating statements and reconciliation for the life of the Mortgage Loan.

Section 504  Compliance with Loan Agreement Requirements

504.01  General

The Servicer must ensure that the Borrower and any guarantor are in compliance with the Loan Documents. For all Mortgage Loans, the Servicer must:

- confirm that the Borrower complied with all quarterly and annual reporting requirements, which are primarily set out in Article 8 of the Multifamily Loan Agreement (Form 6001 series); and

- review all information required by the Loan Documents to be furnished by the Borrower.

To assist in compiling the financial records and other items required to be furnished by the Borrower, the Servicer may use the Annual Loan Agreement Certification (Form 6620 series).

504.02  Obtaining Required Financial and other Reporting Items

504.02A  Notice to the Borrower

At the end of each fiscal year, the Servicer must send the Borrower, and all guarantors on a Mortgage Loan, a list of the financial reports required to be submitted and certified by each Borrower and guarantor. The list must be delivered in sufficient time to allow submission to the Servicer of the certified financial reports within 45 days after the end of each fiscal quarter, and 120 days after the end of each fiscal year.

504.02B  Annual Reporting of Guarantor Financial Condition

Fannie Mae will provide the Servicer with an annual list of all Mortgage Loans for which the Servicer must submit the financial records and other required items for the past fiscal year by, or on behalf of, each guarantor of the Mortgage Loan. The guarantor financial information must be submitted through the MAMP, or as otherwise directed by Fannie Mae, by
the June 1 deadline required for the annual Financial Analysis of Operations reports (Form 4254) for each Property. If Fannie Mae determines increased credit risk for a Mortgage Loan not on the initial list provided to the Servicer, Fannie Mae may ask for the submission of the associated guarantor financial records at any other time during the year.

504.02C  Failure of Borrower to Provide Required Guarantor Financial Reporting

The Lender must use its best efforts to obtain the required financial reports for any guarantor not included on Fannie Mae’s list of Mortgage Loans for which the Servicer must submit the financial records of each guarantor of the Mortgage Loan.

For all Mortgage Loans included on Fannie Mae’s list, the Servicer must contact Fannie Mae immediately upon the occurrence of any of the following events:

- the Borrower is unable to submit the required guarantor financial reports and other items by the date required in the Loan Documents;
- the Borrower or guarantor is unable to certify that each financial report is true, complete, and accurate in all material respects; or
- the Servicer believes the financial reports and other items are, inaccurate or misleading in any material way.

Upon the occurrence of any of the foregoing events, the Servicer must notify the Borrower, and the Borrower or guarantor shall have an additional 30 days after receipt of such written notice to deliver to the Servicer all required financial reports and other items, properly certified by the Borrower or guarantor. If the Servicer determines that the Borrower or guarantor is diligently attempting to deliver all required financial reports and other items, this 30 day period may be extended by the Servicer for up to an additional 30 days.

If the Borrower or a guarantor fails to (i) submit all required financial reports and other items, properly certified by the Borrower or guarantor, within the above time frame; or (ii) respond to at least 3 written requests for the delivery of the required information, the Servicer must request a waiver through the MAMP for the Borrower, or Multifamily Operating Statements for the guarantor. The Servicer must provide copies of all correspondence between the Servicer and the Borrower or any guarantor related to this matter to Fannie Mae.

504.02D  Lender Review of Required Financial Reporting

The Servicer must promptly review all information submitted by the Borrower or guarantor. If the Servicer determines that no additional follow-
up is required, the Servicer must submit the certified material for the Borrower and guarantors requested by Fannie Mae through the MAMP, or as otherwise directed by Fannie Mae. The Servicer must also place that material, and the financial information for any other guarantor received by the Servicer, along with any explanatory schedules, in its Servicing File.

If the Servicer determines that additional follow-up is required to explain any submitted material, or that additional or supporting information is required (e.g., for a Lender using the Form 6620 series, a required item the Borrower failed to attach to the submission, or an item to which the Borrower failed to certify), the Servicer must contact the Borrower or guarantor promptly to request additional information. Once the additional or resubmitted information is received, the Servicer must submit a copy of all financial reporting, explanatory schedules, and other supporting information furnished by the Borrower and guarantor to the MAMP for the Borrower, or to Multifamily Operating Statements for the guarantor.

### 504.02E Maintenance of Annual Financial Reporting Records

The Servicer must retain the original of all financial records, certifications, and related information furnished by the Borrower or guarantor (including each Annual Loan Agreement Certification, if used by the Servicer, and any explanatory schedules) in its Servicing File.

### Section 505 OFAC Compliance

The Servicer must maintain effective OFAC compliance procedures including, but not limited to:

- screening all Persons previously identified per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance at least monthly to confirm that none are sanctioned or blocked by OFAC; and

- reporting any sanctioned or blocked Person to Lender Risk Management within 24 hours.
Chapter 6  Watchlist Management

Section 601  Servicer Watchlist

601.01  Submission

☑️ Requirements

You must:

- Maintain a Servicer Watchlist for your Portfolio Mortgage Loans that
  - reflects your loan rating methodology, and
  - identifies Mortgage Loans with heightened credit risk.
- Submit your Servicer Watchlist for all
  - Primary Risk Mortgage Loans, and
  - Secondary Risk Mortgage Loans.

_trees Operating Procedures

Submit your Servicer Watchlist:

- using the CSV upload template located under “Guides and Templates” in the MAMP; and
- within 45 days after each calendar quarter end, but no later than the due date shown in the MAMP.

For each Mortgage Loan, you must:

- Respond “Yes” or “No” to the following 2 questions:
  - Will the Borrower likely not be able to make timely debt service payments?
  - Will the Borrower likely not meet the contractual obligations to timely pay off the Mortgage Loan UPB?
- Explain
  - why it is being reported, and
  - the rationale for its rating.
- Describe the current status of the issues.
Requirements

If a Mortgage Loan has heightened credit risk, you must:

- act to mitigate the risk of loss or default;
- explain the nature and severity of the issues; and
- contact Fannie Mae:

<table>
<thead>
<tr>
<th>Contact</th>
<th>For...</th>
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<tbody>
<tr>
<td>Watchlist Management</td>
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<td>• Part V, Chapter 5: Surveillance, Section 502.02: Mortgage Loans with Property Condition Concerns (Not Limited to Watchlist Loans), and</td>
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<td>• Part V, Chapter 5: Surveillance, Section 502.06F: Analysis of Collateral.</td>
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<tr>
<td>Maturity Management</td>
<td>Mortgage Loans maturing within the next 24 months.</td>
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</tbody>
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Operating Procedures

Your mitigating actions must include 1 or more of the following:

- monitoring the Property (and any other collateral)
  - management and operations, and
  - physical condition (e.g., more frequent inspections);
- implementing or enforcing Loan Document provisions such as
  - rescinding Loan Document waivers, or
  - reinstating Replacement Reserve funding; and
communicating with all appropriate parties (e.g., Borrower, Key Principals, Sponsor, and Property manager).

Section 602  Fannie Mae's Watchlist

**Guidance**

Fannie Mae’s Watchlist identifies Mortgage Loans with increased credit risk based on Fannie Mae’s proprietary rating system, and Watchlist Rating Classifications.

**Requirements**

You must regularly monitor Fannie Mae’s Watchlist for your Mortgage Loans in the MAMP’s “My Portfolio” module.

Section 603  Action Plans

### 603.01 Primary Risk Mortgage Loans

**Requirements**

You must submit an Action Plan for any Primary Risk Mortgage Loan identified as a Substandard Asset on Fannie Mae’s Watchlist, and with an Action Plan work item in the MAMP.

The Action Plan must explain

- all areas of concern,
- the Sponsor’s strategy and timing,
- your actions to resolve the issues, and
- any results.

**Operating Procedures**

For a Small Mortgage Loan, do not create an Action Plan unless Fannie Mae requires it.

For each Action Plan:
Review the MAMP module.

Review the Action Plan Submission Process Guide under "Guides and Templates" in the MAMP.

Create a new one or update an existing one twice a year to:

- document material changes and/or updates since the previous Action Plan;
- identify causes of the issues and additional actions you and the Borrower took;
- explain how the actions will reduce or mitigate risk and loss; and
- report the results of previous actions.

Use the prescribed format to submit it in the MAMP by the “Submission Due Date”.

## 603.02 Secondary Risk Mortgage Loans

### Guidance

For a Secondary Risk Mortgage Loan on your Servicer Watchlist, Fannie Mae may request additional information, including an Action Plan.

### Requirements

You must provide all information and Action Plans within 5 Business Days after Fannie Mae’s request.

## 603.03 Defaulted Mortgage Loans

### Requirements

For any defaulted Mortgage Loan, until servicing is transferred to a Special Servicer, you must continue taking all actions

- noted in the Action Plan, or
- otherwise communicated to Fannie Mae.

### Guidance

For your defaulted Mortgage Loan obligations, see Part V, Chapter 7: Non-Performing Mortgage Loans.
Section 604  Servicer Fees

Requirements

For any workout, modification, or reinstatement of a Mortgage Loan on your Servicer Watchlist or Fannie Mae’s Watchlist, without Fannie Mae’s prior written approval, you must not

- charge the Borrower any fee for your own account, or
- ask the Borrower to reimburse you for any costs or expenses.

Section 605  Fannie Mae Contractors

Requirements

You must interact with any Fannie Mae contractor engaged to provide asset management or other services as you would with Fannie Mae directly.
Chapter 7  Non-Performing Mortgage Loans

Section 701  Generally

This Chapter sets forth the policies, procedures and standards for servicing Non-Performing Mortgage Loans through the default resolution process. The provisions of this Chapter apply, unless otherwise noted, to both Secondary Risk Mortgage Loans and Primary Risk Mortgage Loans.

Fannie Mae requires that, at a minimum, each Servicer offer the same standard of care to its Fannie Mae portfolio as it would its own portfolio. Subject to this Chapter, the Servicer must aggressively pursue collection of all amounts due from Borrowers under the Loan Documents to minimize losses. To that end, this Chapter sets forth the roles, duties and responsibilities of the various groups within Fannie Mae, the Servicer, and, if applicable, the Special Servicer charged with resolving delinquencies and defaults in the most efficient and expeditious manner.

The party performing the loss mitigation actions, as outlined in this Chapter 7, is referred to as the "Special Servicer". The Special Servicer will either be the Lender, Fannie Mae, or a contract Special Servicer for the Lender or Fannie Mae, as permitted by this Guide. In this Chapter, any reference to the respective rights or duties of the Lender or Fannie Mae, as the Special Servicer, shall also apply to any approved contract Special Servicer for the Lender or Fannie Mae; however, it is the Lender's responsibility to ensure that any actions taken in its behalf by a contract Special Servicer fully comply with the requirements of this Guide.

The requirements set forth in this Chapter represent only the minimum requirements that Fannie Mae expects from the Servicer. Unusual circumstances may require the Servicer to perform additional servicing duties as directed by Fannie Mae. Fannie Mae requires a high standard of delinquent Mortgage Loan servicing. Failure to service in accordance with that standard may result in Fannie Mae's exercise of its remedies as set forth in the Guide and the Lender’s Contract.

In the event of a conflict between this Chapter, the Lenders Contract, the Transaction Documents, and the Loan Documents, the following is the order of priority regarding governing provisions: (1)Loan Documents, (2)Transaction Documents, (3)Lenders Contract, and (4)this Chapter. To the extent not in contradiction with the Loan Documents, the Lenders Contract or the Transaction Documents, the requirements of this Chapter must be satisfied.

Section 702  Secondary Risk Mortgage Loans and Primary Risk Mortgage Loans
702.01 Generally

For certain Lenders, the Lender’s Contract with Fannie Mae will specify which party has all of the risk of loss on the Mortgage Loan, or if the Lender and Fannie Mae share the loss. In some Lender Contracts, the Mortgage Loans may be Secondary Risk until the Lender’s recourse obligation is deemed exhausted after which the Mortgage Loans will become Primary Risk.

702.02 Secondary Risk Mortgage Loans

702.02A Definition

A Mortgage Loan is considered a Secondary Risk Mortgage Loan when all losses incurred on such Mortgage Loan are contractually borne by the Lender until the Lender’s specified recourse obligation is deemed exhausted. This obligation to bear all losses is sometimes referred to as a "Top Loss" obligation. Because Secondary Risk Mortgage Loans will convert to Primary Risk Mortgage Loans upon the deemed exhaustion of the Lender’s obligation, Fannie Mae and the Servicer must work together to accurately track amounts for any losses that may have occurred.

702.02B Lender is Special Servicer

For all Secondary Risk Mortgage Loans, the Lender, or its approved contract servicer, will be the Special Servicer. The Special Servicer will be required to submit to Fannie Mae a Servicer Workout Action Template (“SWAT”) (Form 4810) for all Secondary Risk Mortgage Loans as more particularly provided in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 708.02: Servicer Workout Action Template (“SWAT”).

702.02C Deemed Exhaustion of Recourse Obligation

When the cumulative approved realized losses plus Potential Losses under a Secondary Risk Lender Contract equal or exceed 90% of the Lender’s recourse obligation under that Contract, the Lender’s recourse obligation under the Contract will be deemed to be exhausted and the remaining Mortgage Loans serviced under that Contract will be deemed to be Primary Risk Mortgage Loans. Fannie Mae will provide notice in writing to the Servicer at the time of such re-designation. Re-designation of a Mortgage Loan from Secondary Risk to Primary Risk does not relieve the Lender of its remaining recourse obligation.

Fannie Mae’s estimate of Potential Losses will be calculated as follows:

- the value of each Property (as provided below) securing all then-delinquent Mortgage Loans, less
the UPB of all then-delinquent Mortgage Loans, plus estimated expenses to pursue a foreclosure Course of Action for all then-delinquent Mortgage Loans.

The value of the Property shall be calculated as follows:

- 90% of the Property value of each Property securing each such delinquent Mortgage Loan if the value is established by an appraisal or broker’s opinion of value dated six (6) months or less prior to incurring the Potential Loss, or
- 60% of the most recent Property value of each Property securing each such delinquent Mortgage Loan if the value is established by an appraisal or broker’s opinion of value dated more than six (6) months prior to incurring the Potential Loss.

702.03 Primary Risk Mortgage Loans Defined

702.03A Definition

A Mortgage Loan is considered a Primary Risk Mortgage Loan when Fannie Mae bears all losses on the Mortgage Loan or when the Lender and Fannie Mae share the losses on the Mortgage Loan. All Mortgage Loans delivered under the DUS and Aggregation product lines and certain other Mortgage Loans where Fannie Mae either bears all the risk of loss or shares in a portion of the risk of loss are Primary Risk Mortgage Loans.

702.03B Fannie Mae is Special Servicer

For all Primary Risk Mortgage Loans, Fannie Mae, or its contract servicer, will be the Special Servicer.

Section 703 Mortgage Loan Defaults

703.01 Anticipatory Defaults

When a Borrower indicates to the Servicer that it is no longer willing or able to continue to make its debt service or other payment obligations as required by the Loan Documents or to perform acts that are required by the Loan Documents, the Servicer must notify its Fannie Mae Representative immediately. The Servicer and Fannie Mae will determine whether such future non-performance is inevitable and whether to treat such a potential breach as immediate and, if repudiatory, to seek immediate relief.

703.02 Performance Defaults
**703.02A  Failure of Borrower to Perform**

The Loan Documents will provide acts of the Borrower that are required to be performed, the failure of which may be designated as an event of default. There may be grace periods for curing such a default. The Servicer must provide written notice of the default to Fannie Mae and to the Borrower as required in the Loan Documents. The Servicer must diligently pursue the Borrower's cure thereof within the time permitted. If the Borrower fails to cure the default within the time provided in the Loan Documents to effect such a cure, a Performance Default has occurred. Depending on the severity of the Performance Default, Fannie Mae may permit the Servicer to monitor the default per Part V, Chapter 7: Non-Performing Mortgage Loans, Section 703.02C: Lender Tenders for Minor or Immaterial Defaults.

**703.02B  Service of Process**

Often, the Lender, Servicer, or Fannie Mae become aware of a Performance Default through receipt of a complaint, petition, or similar legal document in connection with a lawsuit. While the Servicer has the duty to provide notices of default to the Borrower, neither the Lender nor the Servicer is authorized to accept service of process on behalf of Fannie Mae. Fannie Mae's Legal Department in Washington, DC must accept service of process for Fannie Mae related to any Mortgage Loan or Property.

**703.02C  Lender Tenders for Minor or Immaterial Defaults**

1. **Primary Risk Mortgage Loans**

   In some instances, for minor or relatively immaterial defaults (like materialmen and mechanics' liens) on Primary Risk Mortgage Loans, Fannie Mae will elect to tender the Performance Default to the Servicer to monitor, engage legal counsel as necessary, and otherwise protect Fannie Mae's security interest in the Property. These "Lender Tenders" will be monitored and special serviced by the Servicer using its customary standard of care for similar Performance Defaults in its own portfolio.

2. **Secondary Risk Mortgage Loans**

   For Secondary Risk Mortgage Loans, all of the monitoring and special servicing activities for minor or relatively immaterial defaults will be performed by the Servicer.

3. **Lender Tenders Not Subject to Requirements of this Chapter**

   Lender Tenders are not subject to the terms of this Chapter.

**703.03  Monetary or Payment Defaults**
Payments under the Note evidencing the Mortgage Loan are due on the first day of the month or such other date as may be specified in the Note. Typically, there is no grace period for making payments and payments made after the scheduled due date are past due even if late charges do not attach until some days later. If the Borrower fails to pay monies when due, whether the obligation arises under the Note or other Loan Document, a Monetary or Payment Default has occurred.

### 703.04 Date of Default

#### 703.04A Definition of Date of Default

The Date of Default is the date of the initial Payment Default or Performance Default.

#### 703.04B Definition of Non-Performing Mortgage Loan

After the Date of Default and until the default is cured, the Mortgage Loan is considered a "Non-Performing Mortgage Loan."

#### 703.04C Partial Payments by Borrower Do Not Change Date of Default

For purposes of computing the time period for initiating the Dual Track Approach and electing a Course of Action as described in this Chapter, partial payments made by the Borrower for monies due under the Note or other Loan Document does not advance forward the Date of Default. The last paid installment ("LPI") is the accounting term for indicating the due date of the last payment received. Partial payments may be received over time that advance the LPI date, but the Date of Default of the initial Payment Default or Performance Default will not change.

Per Part V, Chapter 7: Non-Performing Mortgage Loans, Section 704.02: Partial Payments; Late Payments, before the Servicer is permitted to apply any partial payment to advance the LPI date, the Servicer must first obtain direction from Fannie Mae Special Asset Management. Fannie Mae may, at its option, require the Servicer to hold all such partial payments in suspense and not advance the LPI date until the Borrower has paid all amounts necessary to cure all Payment Defaults.

### 703.05 Late Charges and Default Interest

#### 703.05A Timing for Imposition of Late Charges and Default Interest

The imposition of late charges and default interest must be made in accordance with the amounts and at such time as specified in the Note or other Loan Document.
1. Late Charges

Unless otherwise provided in the Lender Contract, all late charges are wholly retained by the Servicer. Any decision to waive the collection of late charges payable to the Servicer rests with the Servicer.

2. Default Interest

Unless the Lender’s Contract specifies otherwise, so long as the Servicer is making Delinquency Advances, the Servicer is entitled to retain that portion of the Mortgage Loan interest rate charged to the Borrower that is attributable to the default and intended to be added to the stated Mortgage Loan interest rate. If the Servicer is not making Delinquency Advances, no amount of the default interest component may be retained by the Servicer. Without regard to whether the Servicer is making Delinquency Advances, Fannie Mae is always entitled to the interest that accrues at the stated Mortgage Loan interest rate.

703.05C No Deduction for Late Charges or Default Interest

Late charges and default interest may not be deducted by the Servicer from the Borrower's P&I payments, T&I deposits, or Collateral Agreement deposits.

703.05D Enforceability of Late Charges and Default Interest

The enforceability of late charges and default interest may depend on the law in the Property jurisdiction. The Servicer must determine, based on the facts and circumstances of any transaction and their legal counsel's advice, whether any such charges are enforceable in the Property jurisdiction prior to making demand.

Section 704 Notice of Default; Reservation of Rights

704.01 Notice of Default

704.01A Notice to Fannie Mae of Payment Default

Using the Multifamily Delinquency System, the Servicer must advise Fannie Mae of a Payment Default or a Performance Default on or before the 17th day of the month (or on the next Business Day if the 17th is not a Business Day) in which the Payment Default occurs or is discovered.

704.01B Notice to Fannie Mae of Performance Default

By written notice to its Fannie Mae Representative (Multifamily Loss Mitigation for Primary Risk Mortgage Loans, and Maturity Management Top Loss for Secondary Risk Mortgage Loans), the Servicer must advise Fannie Mae of certain Performance Defaults as provided in this Section.
Notice of a Performance Default must be given to Fannie Mae:

- within five (5) days after the Servicer becomes aware of the Performance Default; or
- if the Loan Documents permit a cure period after the Borrower receives written notice of its default or failure to perform any act under the Loan Documents, then within five (5) days after the Borrower’s cure period has expired and a Performance Default has occurred. The Servicer shall provide any such notice of the Performance Default to the Borrower per Part V, Chapter 7: Non-Performing Mortgage Loans, Section 703.02: Performance Defaults.

If the Borrower’s default or failure to perform any act under the Loan Documents has been excused by a waiver given by the Servicer (if permitted pursuant to this Guide) or by Fannie Mae, such default or non-performance is not considered a Performance Default.

After having given Fannie Mae notice of a Performance Default, the Servicer should provide updates at least monthly to its Fannie Mae Representative, to advise of status of the default and the steps being taken by the borrower to cure the Performance Default.

704.01C Types of Performance Defaults

The following Performance Defaults must be reported by the Servicer, as provided in this Section; however, to the extent the Servicer believes that a Performance Default not listed below is material to the Borrower’s ability to perform under the Mortgage Loan, or the value of the Mortgage Loan or the Property, the Servicer should report that Performance Default as well:

1. Unauthorized Transfers

To the extent not approved in accordance with Part V, Chapter 4: Asset Management: Loan Document Administration, Section 418: Credit Enhancement Mortgage Loans and Multifamily Affordable Housing Properties, any transfers identified as a Transfer/Assumption in Part V, Chapter 4: Asset Management: Loan Document Administration, Section 418: Credit Enhancement Mortgage Loans and Multifamily Affordable Housing Properties, unless such type of transfer is permitted under the applicable Loan Agreement or Security Instrument for the Mortgage Loan.

2. Completion/Repair Defaults

The Borrower’s failure to complete required repairs in the aggregate in excess of the lesser of $50,000 or 10% of current UPB under a Loan Agreement, a Completion/Repair Agreement, a Replacement Reserve
and Security Agreement, or any other Loan Document or agreement binding upon the Borrower.

3. **Mechanics’, Materialman’s or Judgment Liens**

   The Borrower’s failure to release or bond off a mechanics’, materialman’s or judgment lien that has been filed against the Property.

4. **Failure to Maintain Insurance**

   The Borrower’s failure to maintain all insurance coverages as required by Part II, Chapter 5: Property and Liability Insurance and the applicable Loan Agreement or Security Instrument for the Mortgage Loan.

5. **Failure to Maintain the Property**

   The Borrower’s failure to maintain the Property as required by the applicable Loan Agreement or Security Instrument for the Mortgage Loan, as evidenced by outstanding code violations or municipal code enforcement actions pending against the Property for immediately hazardous conditions (such as inadequate fire exits, rodents, lead-based paint, lack of heat, hot water, electricity, or gas, etc.), uninhabitable units on the Property, the failure to promptly make repairs to the Property following a casualty loss, demolition of Improvements on the Property, or waste or abandonment of the Property or its Improvements. For purposes of reporting under Part V, Chapter 7: Non-Performing Mortgage Loans, Section 704.01: Notice of Default, “uninhabitable units” do not include a unit where a tenant has vacated and the unit is being made ready, so long as the Borrower is promptly addressing the condition of the vacated unit and in the process of making it ready for leasing.

6. **Change in Use**

   The Borrower’s alteration of the Property or change in use, unit mix or other characteristics of the Property, or converting any individual dwelling unit to commercial use, or initiating or acquiescing to a change in the zoning classification of the Property, or establishing any condominium or cooperative regime with respect to the Property, or subdividing the Property, without Fannie Mae approval as required by the Loan Documents.

7. **Environmental Conditions**

   The Borrower’s failure to comply with its Operations and Maintenance (“O&M”) Agreement for the Property, or the existence of any environmentally hazardous materials that would constitute a Prohibited Activity or Condition under the Loan Agreement, Security Instrument, or other Loan Documents.

8. **Noncompliance with Laws**

   Any violation of laws, ordinances or regulations by the Borrower and/or the Property, as required by Part V, Chapter 3: Custodial Accounts, Section 301.04: Investments and Interest.
704.01D  Contact with Borrower

The Servicer must contact the Borrower as provided in this Chapter to determine why the payment has not been made and whether the payment will be made before the end of the month. The Servicer must continue to update the Multifamily Delinquency System on its discussions with the Borrower until the Mortgage Loan has been transferred to the Special Servicer (either Fannie Mae for Primary Risk Mortgage Loans, or the Servicer's special servicing area for Secondary Risk Mortgage Loans).

704.01E  Pre-Negotiation Letter

1. Execution

Prior to entering into any discussions with a Borrower regarding an anticipatory default (per Part V, Chapter 7: Non-Performing Mortgage Loans, Section 703.01: Anticipatory Defaults) or after the Mortgage Loan has been transferred to the Special Servicer and prior to any further discussions with the Borrower regarding the Non-Performing Mortgage Loan and possible resolution of the default, the Borrower, Fannie Mae (if a Primary Risk Mortgage Loan), the Servicer (if a Secondary Risk Mortgage Loan) or the Lender (if the Lender has loss sharing and is not also the Servicer) must execute and send to the Borrower a written Pre-Negotiation Form Letter (NOI and Loan Document Provisions) (Form 4811) or Pre-Negotiation Form Letter (Form 4812).

2. Purpose of Pre-Negotiation Letter

The purpose of the Pre-Negotiation Letter is for all parties to acknowledge in writing that any discussions relating to resolution of the default are not binding on any party until the discussions are documented in a written agreement executed by all parties. Use of the Pre-Negotiation Letter minimizes the risk of a liability claim against Fannie Mae or the Servicer that the Borrower acted in reliance on a verbal representation by Fannie Mae or the Servicer.

704.02  Partial Payments; Late Payments

704.02A  Partial Payments

If the Borrower makes a partial payment, within five (5) business days after receipt of the partial payment the Servicer must send a letter to the Borrower, under the Servicer’s letterhead, the Multifamily Partial Payment Letter – Fees (Optional) Assessed (Form 4806).

704.02B  Late Partial Payment

If the Borrower makes a late and partial payment, within five (5) business days after receipt of the late and partial payment the Servicer must
send to the Borrower, under the Servicer’s letterhead, the Multifamily Partial Payment Letter – Fees (Optional) Assessed (Form 4806).

704.02C  Full Payment After Expiration of Period Before Assessing Late Charges

If the Borrower makes a full payment after the date late charges are assessed, upon receipt of such payment the Servicer must send within five (5) business days the Borrower, under its letterhead, the Multifamily Late Payment Letter – Fees (Optional) Assessed (Form 4805).

If the amount of the payment received from the Borrower is not sufficient to cure all Monetary Defaults, the Servicer shall obtain direction from Fannie Mae Special Asset Management prior to applying the amount to past-due payments and advancing the LPI date. Fannie Mae may, at its option, require the Servicer to hold any such payments received in suspense until the Borrower has paid all amounts necessary to cure all Monetary Defaults.

704.02D  Application of Partial Payments

If the amount of the payment received from the Borrower is not sufficient to cure all Monetary Defaults, the Servicer shall obtain direction from Fannie Mae Special Asset Management prior to applying the amount to past-due payments and advancing the LPI date. Fannie Mae may, at its option, require the Servicer to hold any such payments received in suspense until the Borrower has paid all amounts necessary to cure all Monetary Defaults.

704.02E  Failure to Make Any Payment

If the Borrower fails to make any payment at all, within five (5) business days following the date late charges are incurred the Servicer must send to the Borrower, under the Servicer’s letterhead, the Multifamily No Payment Received Letter – Fees (Optional) Assessed (Form 4807).

704.02F  Copies of Letters Sent to Borrower; Correspondence with Borrower

The Servicer must send to its Fannie Mae Representative a copy of any letter sent to the Borrower pursuant to this Chapter at the same time as it sends such letter to the Borrower. After outside counsel is engaged, any correspondence with the Borrower related to the Payment Default or Performance Default, or the Course of Action, must be made by or through the outside counsel.

Section 705  Capital Repairs and Protection of Property and Property Income
705.01A Generally

It is not unusual for a Property securing a Non-Performing Mortgage Loan to be in need of repairs during the default resolution process. Generally, a Payment Default or a Performance Default will result in a default under the Collateral Agreements for Replacement Reserves, Operating Deficit, Completion/Repairs, or other Collateral Agreements. When the Borrower is in default under a Collateral Agreement, the Special Servicer has discretion in applying the reserves or Letter of Credit proceeds either to repairs or replacements or to the payment of amounts due and owing to Fannie Mae under the Loan Documents.

1. Primary Risk Mortgage Loans

As part of its Asset Review for Primary Risk Mortgage Loans, as provided in this Chapter, the Servicer must advise Fannie Mae Special Asset Management of the type of repairs or replacements that are necessary and recommend whether the repairs should be funded from the Collateral Agreement funds. It is Fannie Mae’s decision whether or not to accept the recommendation and use the funds for repairs or replacements for Primary Risk Mortgage Loans.

2. Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, the Lender must provide a SWAT describing the actions it intends to take to ensure the repair of the Property and to prevent further Property deterioration. The decision whether or not to use Collateral Agreement funds for repairs or replacements is the Special Servicer’s. When making the decision whether to use the Collateral Agreement funds for repairs or replacements, the level of cooperation from the Borrower and remitting the monthly net operating income must be a factor to consider.

705.01B Health and Safety Repairs

If in inspecting the Property securing the Non-Performing Mortgage Loan, it is apparent that the Borrower is not making repairs related to the health and safety of the tenants or is allowing the physical condition of the Property to deteriorate, then:

- for Primary Risk Mortgage Loans, the Servicer must immediately notify Fannie Mae Special Asset Management and, if the Mortgage Loan has been transferred to Fannie Mae Special Asset Management for special servicing, Fannie Mae may elect to engage outside counsel to pursue the court appointment of a receiver, as well as enforce other rights and remedies; or

- for Secondary Risk Mortgage Loans, the Lender must provide
a SWAT describing the actions it intends to take to ensure the repair of the Property and to prevent further Property deterioration.

THE SERVICER MUST NOT ATTEMPT TO MAKE THE REPAIRS, HIRE CONTRACTORS TO MAKE THE REPAIRS, OR OTHERWISE TAKE ANY ACTION THAT COULD RESULT IN A MORTGAGEE-IN-POSSESSION STATUS.

705.02 Protection of Property Income

For all Non-Performing Mortgage Loans, if the Borrower is not accounting for and paying to the Servicer the monthly net operating income from the Property after the Date of Default, then:

- for all Primary Risk Mortgage Loans the Servicer must notify Fannie Mae Special Asset Management as part of the Asset Review or otherwise; or
- for all Secondary Risk Mortgage Loans, the Special Servicer must provide in the SWAT the actions it intends to take to obtain control of the net operating income.

705.03 Property Management Changes

705.03A Primary Risk Mortgage Loans

For Primary Risk Mortgage Loans, any proposed changes in the property management for Property securing a Non-Performing Mortgage Loan must be approved in writing by Fannie Mae Special Asset Management.

705.03B Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, the recommendation to change the property management for Property securing a Non-Performing Mortgage Loan must be included in the SWAT.

705.03C Approval Decision Criteria and Timing

The decision to approve the replacement property management must focus on, among other customary underwriting criteria, identifying conflicts of interest between the proposed Property Manager and Fannie Mae, as well as evaluating the Property Manager’s ability to maintain the Property’s physical condition and improve operating income.
Fannie Mae will communicate its approval or rejection of the proposed replacement of the property management within thirty (30) days after receipt from the Servicer of all information necessary to render its decision. Fannie Mae's approval may be conditioned upon receiving additional documentation or the satisfaction of additional requirements. If Fannie Mae has not approved or conditionally approved the proposed replacement property management within thirty (30) days after the Servicer's request, the proposed change in property management will be deemed to be denied by Fannie Mae.

### 705.03D Documenting the Property Management Change

Unless the change in property management is through a court-appointed receiver, the Servicer must send an original Assignment of Management Agreement (**Form 4508**) for the proposed new property management company executed by the Borrower and information regarding the new property management company to Fannie Mae Special Asset Management to effect a change in Property management.

### Section 706 Reinstatement; Calculation of Payoff Amount

#### 706.01 Reinstatement

**706.01A Primary Risk Mortgage Loans**

For Primary Risk Mortgage Loans, if the Borrower offers to reinstate a Non-Performing Mortgage Loan at any time after the Mortgage Loan has been transferred to Fannie Mae Special Asset Management, the Servicer must notify Fannie Mae Special Asset Management in writing. Fannie Mae will make the determination of whether to allow reinstatement of the Non-Performing Mortgage Loan.

**706.01B Secondary Risk Mortgage Loans**

For Secondary Risk Mortgage Loans, if the Borrower offers to reinstate a Non-Performing Mortgage Loan at any time after a SWAT has been provided to Fannie Mae, the Servicer (if not the Lender with the risk of loss) will notify the Lender in writing and the Lender will make the determination of whether to allow reinstatement, subject to applicable law, and provide an updated SWAT to Fannie Mae.

#### 706.02 Calculation of Payoff Amount

For either Primary Risk Mortgage Loans or Secondary Risk Mortgage Loans, if in the course of performing loss mitigation actions the Special Servicer requires a computation of the payoff amount for the Mortgage Loan (e.g., for a demand letter to Borrower after acceleration, preparation of litigation pleadings for foreclosure judgment or deficiency suit,
determination of foreclosure bid, etc.), the Servicer shall calculate the full payoff amount and submit it for Fannie Mae’s confirmation in accordance with Part V, Chapter 2: Reporting and Remitting, Section 214.03: Calculating and Obtaining Confirmation of Payoff Amount. In those instances, if there is not an actual payoff of the Nonperforming Mortgage Loan expected, the anticipated foreclosure date or the “as of” date for the payoff shall be used as the “payoff date” in the calculation. In addition, the Servicer’s request for verification of the payoff amount must be submitted to Fannie Mae for confirmation at least two (2) business days before such payoff amount is needed by the Special Servicer or outside counsel for its demand letter, litigation pleadings, or other use.

Section 707 Non-Performing Primary Risk Mortgage Loans – Transfers to Fannie Mae Special Asset Management

707.01 Transfer to Special Servicing

At any time during the first 60 days after the Date of Default, a Non-Performing Primary Risk Mortgage Loan may be transferred to Fannie Mae Special Asset Management, to be the Special Servicer, if the Servicer or Fannie Mae determines that the Borrower is either not cooperating with attempts to resolve the default or it becomes apparent the Borrower will not be able to cure the default. Fannie Mae reserves the right to require any Non-Performing Primary Risk Mortgage Loan be transferred to Fannie Mae Special Asset Management prior to the 60th day after the Date of Default.

Any Non-Performing Primary Risk Mortgage Loan not previously transferred to Fannie Mae, as the Special Servicer, must be transferred to Fannie Mae Special Asset Management no later than the 60th day after the Date of Default.

707.02 Asset Review

At the time of the transfer of the Non-Performing Primary Risk Mortgage Loan to Fannie Mae for special servicing, in addition to the Servicing Transfer Memo prepared by the Servicer in accordance with Part V, Chapter 7: Non-Performing Mortgage Loans, Section 709.02: Servicing Transfer Memo, the assigned asset manager for Fannie Mae Special Asset Management and the appropriate representatives of the Servicer will engage in a discussion to determine what documents or additional due diligence may be required to review the status of the Non-Performing Mortgage Loan or the Property. This Asset Review may include:

- the delivery of copies of the Loan Documents to Fannie Mae;
- the review of the third-party reports obtained by the Lender prior to the origination of the Mortgage Loan;
- the review of the Underwriter’s Narrative, the Transaction
Approval Memo or other underwriting analyses and materials of the Lender related to the Non-Performing Mortgage Loan;

- the review of various other third-party reports, analyses, studies, proposals or other documents obtained by Fannie Mae or the Servicer subsequent to the origination of the Non-Performing Mortgage Loan;

- obtaining additional third-party reports (including Property appraisal, environmental study or PCA), studies or proposals; or other documents or due diligence related to the Non-Performing Mortgage Loan; or

- assessing the Borrower or Key Principal's financial condition, the operations of the Property, or the current market value and condition of the Property.

Section 708  Non-Performing Secondary Risk Mortgage Loans – Special Servicing

708.01 Servicer Performs Loss Mitigation Actions

For Secondary Risk Mortgage Loans, the Lender shall be the Special Servicer to perform all approved loss mitigation actions to be taken under the Dual Track Approach as described in this Chapter, including selecting and implementing a Course of Action for resolution of the Non-Performing Mortgage Loan.

708.02 Servicer Workout Action Template (“SWAT”)

708.02A Delivery of SWAT

The Special Servicer must submit to Fannie Mae Special Asset Management a SWAT for review and approval not later than:

- 60 days after the Date of Default for any Payment Default; or

- 15 days after the Maturity Date if the Borrower fails to pay off the Mortgage Loan on or before the Maturity Date.

It is expected that the Special Servicer has collected the necessary data and documentation to prepare its loss mitigation plan for the Non-Performing Mortgage Loan and selected a Course of Action prior to submission of its SWAT.

708.02B Purpose of SWAT

The purpose for the SWAT is to ascertain Potential Losses associated with the Non-Performing Mortgage Loan and the impact to the
Lender's recourse obligation. The SWAT communicates to Fannie Mae the Lender's selected Course of Action, the underlying collateral value (which may be the Special Servicer's estimate or a broker's opinion of value, prior to obtaining an appraisal), operations and physical condition of the Property, financial condition of the Borrower, and loss mitigation actions proposed to be taken by the Special Servicer. Additionally, the SWAT specifies an anticipated resolution date, the anticipated resolution costs, and, if foreclosure is the selected Course of Action, the timing for the Lender's purchase of the Mortgage Loan from Fannie Mae, as provided in this Chapter.

708.02C Contents of SWAT

The SWAT submission must include:

- a copy of the Note;
- a copy of the recorded Security Instrument; and
- a copy of the recorded Assignment of Security Instrument to Fannie Mae. If the Assignment has not been recorded, the Servicer must, within five (5) Business Days after delivery of the SWAT to Fannie Mae Special Asset Management either:
  - repurchase the Mortgage Loan from Fannie Mae in accordance with this Chapter; or
  - record the original Assignment and deliver to Fannie Mae a file-stamped copy of the recorded Assignment.

In addition, if foreclosure is the selected Course of Action, the SWAT must include justification for a bid at the foreclosure sale that is less than an amount calculated as follows:

- the actual UPB of the Mortgage Loan;
- accrued interest, plus default interest, to the date of foreclosure sale;
- sums advanced pursuant to the Security Instrument (e.g., taxes, legal costs and fees, etc.);
- the Yield Maintenance or Prepayment Premium; and
- accrued late charges;

Less the following amounts:

- funds held by the Servicer for taxes and insurance deposits, and Collateral Agreement deposits;
- funds collected or received as rents or net operating income;
and

- proceeds from any insurance loss settlement.

708.02D  Fannie Mae Approves SWAT

If Fannie Mae approves the SWAT, the Special Servicer will be granted a limited power of attorney to take all actions on behalf of Fannie Mae, as the noteholder and record lien holder, in accordance with the approved SWAT. In addition, if the Special Servicer or its legal counsel determines that, with respect to a specific Non-Performing Mortgage Loan, a waiver of actions otherwise required in this Chapter is required by local law or a waiver will result in a more effective default resolution, then the Special Servicer must document the appropriate action through the SWAT.

708.02E  Fannie Mae does not Approve SWAT

If Fannie Mae and the Special Servicer are not in agreement with the recommended Course of Action and the SWAT is not approved by Fannie Mae:

- the Lender may purchase the Non-Performing Mortgage Loan from Fannie Mae without expectation or ability to utilize the Lender's recourse obligation, as provided in this Chapter; or

- Fannie Mae may select or implement a Course of Action of its choosing. In such an event, the Lender must reimburse Fannie Mae, within one (1) month following written demand with supporting documentation of the amounts expended, for all costs incurred by Fannie Mae in connection with its implementation of the Course of Action. Fannie Mae may require settlement of any claims at any time before completion of the Course of Action, based on a valuation process and reasonable estimates of its future costs. All sums paid by Lender pursuant to this provision shall not be deemed Actual Losses and shall not be reimbursed to Lender or credited against the Lender's recourse obligation.

708.02F  Updating SWAT

It is essential for the Special Servicer and Fannie Mae to have open and timely communication throughout the SWAT process. Therefore, all SWATs must be updated and resubmitted to Fannie Mae Special Asset Management until final disposition of the Non-Performing Mortgage Loan at the following intervals:

- within three (3) Business Days after the Special Servicer's receipt of new information impacting the approved SWAT that
changes its elected Course of Action, including granting any forbearance, changing any listing prices or sales strategies for the Property;

- at least ten (10) Business Days prior to a Non-Performing Mortgage Loan repurchase by Lender in accordance with this Chapter;
- at least five (5) Business Days prior to foreclosure sale, with a foreclosure strategy and bid justification to be determined as provided above in this Chapter;
- at least five (5) Business Days prior to the execution of any purchase and sale agreement for the Property; and
- at least every six (6) months after the initial SWAT submission even if no changes have been made.

**708.02G  Failure to Timely Deliver SWAT**

If Fannie Mae notifies the Special Servicer that it has failed to submit a SWAT in accordance with this Section, the Special Servicer must prepare and submit the SWAT within fifteen (15) Business Days following Fannie Mae's notification. Any continued failure to submit a required SWAT may result in Fannie Mae selecting or implementing a Course of Action of its choosing. In such an event, within one (1) month following written demand with supporting documentation of the amounts expended, the Lender must reimburse Fannie Mae for all costs incurred by Fannie Mae in connection with its implementation of the Course of Action. Fannie Mae may require settlement of any claims at any time before completion of the Course of Action, based on a valuation process and reasonable estimates of its future costs. All sums paid by Lender pursuant to this provision shall not be deemed Actual Losses and shall not be reimbursed to Lender or credited against the Lender's recourse obligation.

**708.02H  No Credit Against Recourse**

No credit against a Lender's recourse obligation will be given without an approved SWAT.

**Section 709  Special Servicing of Primary Risk Mortgage Loans**

**709.01  Fannie Mae Performs Loss Mitigation Actions**

For all Non-Performing Primary Risk Mortgage Loans, Fannie Mae or its contracted third-party special servicer shall be the Special Servicer and will make all decisions regarding loss mitigation and actions to be taken under the Dual Track Approach, including selecting and implementing a Course of Action. Therefore, the Servicer must remain in close contact with
Fannie Mae Special Asset Management or the contracted third-party special servicer regarding all Primary Risk Mortgage Loans. Because of the loss sharing between Fannie Mae and the Lender, Fannie Mae or its contracted third-party special servicer will:

- provide the Lender with copies of correspondence and pleadings related its loss mitigation;
- include the Lender in discussions regarding the selection and implementation of the Course of Action; and
- provide the Lender with regular updates regarding the status of the Non-Performing Primary Risk Mortgage Loan.

Notwithstanding the foregoing, if the Lender or any of its subsidiaries or affiliates holds any equity interest in the Borrower (either as a direct investment or as a mezzanine lender), any correspondence or communications will not be given to the Lender regarding the Non-Performing Primary Risk Mortgage Loan, other than copies of any correspondence required to be given to the Borrower.

Fannie Mae Special Asset Management or its contracted third-party special servicer will be the Servicer's primary point of contact during default resolution. While Fannie Mae or its contracted third-party special servicer will make all decisions on Primary Risk Mortgage Loans, including application of payments, handling of reserves, and reinstatement of the Mortgage Loan, the Servicer must comply with those determinations as part of its servicing duties. If a Servicer takes any action on a Non-Performing Primary Risk Mortgage Loan without the prior approval of Fannie Mae or its contracted third-party special servicer, such action will constitute a breach of the Servicer's obligations to Fannie Mae.

### 709.02 Servicing Transfer Memo

The Dual Track Approach requires a more formal relationship with the Borrower during the default resolution process. The Servicer and Fannie Mae must work together to collect the data and documentation needed to engage counsel and commence foreclosure proceedings. The Servicer is required to prepare a Servicing Transfer Memo (Form 4808). The Servicing Transfer Memo must be timely completed by the Servicer and delivered to Fannie Mae per Part V, Chapter 7: Non-Performing Mortgage Loans, Section 707.01: Transfer to Special Servicing. Following the transfer of the Non-Performing Mortgage Loan to Fannie Mae, the Servicer must have no conversations or communication with the Borrower regarding the defaults, the Property condition, possible workouts or reinstatement, or other matters typically handled by the Special Servicer.

### Section 710 Engagement of Legal Counsel
710.01 Fannie Mae Retains Legal Counsel

All legal counsel, whether for Primary Risk Mortgage Loans or Secondary Risk Mortgage Loans, must be retained by Fannie Mae. An Engagement of Counsel Letter will be used to document the contractual engagement and a copy will be provided to the Servicer and Special Servicer.

710.02 Primary Risk Mortgage Loans

For Primary Risk Mortgage Loans, Fannie Mae will refer the matter to legal counsel in the Property jurisdiction. The legal counsel will provide copies of all correspondence, pleadings and documents to the Servicer, the Lender (if different from the Servicer) and Fannie Mae, unless Fannie Mae's attorney-client privilege requires otherwise. Neither the Lender nor the Servicer (if different from the Lender) is permitted to have any conversations with legal counsel on Primary Risk Mortgage Loans, without also including a representative of Fannie Mae's Special Asset Management.

710.03 Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, the Special Servicer must refer the matter to Fannie Mae's legal counsel in the Property jurisdiction pursuant to the approved SWAT. Fannie Mae will provide a listing of legal counsel on retainer with Fannie Mae in the Property jurisdiction for the Special Servicer's choice or Fannie Mae will provide a recommendation to the Special Servicer based upon the nature of the default and other facts unique to the Non-Performing Mortgage Loan. Prompt completion and approval of the SWAT will give legal counsel sufficient time to complete its conflicts check and to begin the foreclosure process as described in this Chapter by commencing legal action to enforce the assignment of rents and initiating a foreclosure action. The legal counsel will provide copies of all correspondence, pleadings and documents to both the Lender and Fannie Mae, unless Fannie Mae's attorney-client privilege requires otherwise. For Secondary Risk Mortgage Loans, legal counsel will provide its invoices for fees and expenses to the Special Servicer for payment.

710.04 Payment of Legal Counsel Fees

710.04A Primary Risk Mortgage Loans

Fannie Mae will pay all legal counsel fees for Primary Risk Mortgage Loans, which counsel fees will be included in the calculation of final settlement of loss. If the Lender or Servicer chooses to retain separate legal counsel on Primary Risk Mortgage Loans, the fees and costs of the Lender's or Servicer's legal counsel will not be included in the final settlement of loss.
For Secondary Risk Mortgage Loans, the Special Servicer shall pay all legal counsel fees; however, prior to the Lender's repurchase of the Secondary Risk Mortgage Loan as provided in this Chapter, the outside counsel represents Fannie Mae as the noteholder. Notwithstanding the payment of legal fees by the Special Servicer, so long as Fannie Mae is the noteholder, Fannie Mae is the client to outside counsel pursuant to the Engagement of Counsel Letter, and the payment of legal fees by the Special Servicer shall not be deemed to have created an attorney-client relationship between the Special Servicer and outside counsel. For Secondary Risk Mortgage Loans, the Special Servicer must provide Fannie Mae Special Asset Management with a copy of all invoices for legal services paid on behalf of Fannie Mae, and those legal counsel fees will be included in the calculation of the final settlement of loss.

Section 711 Courses of Action

711.01 Election and Implementation of a Course of Action

As described in this Chapter, Fannie Mae is the Special Servicer and performs all loss mitigation activities for Primary Risk Mortgage Loans. As such, Fannie Mae as the Special Servicer will elect a Course of Action (either jointly with the Lender, if applicable, or separately, depending upon the specific Course of Action), and implement the elected Course of Action. For Secondary Risk Mortgage Loans, the Special Servicer shall recommend the Course of Action in the Servicing Workout Action Template ("SWAT") and, once approved by Fannie Mae, implement such Course of Action.

The Courses of Action are:

- Lender Purchase of Mortgage Loan, as described in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.02: Course of Action – Lender Purchase of Mortgage Loan;

- Lender Workout, as described in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.03: Course of Action – Lender Workout Election;

- Joint Fannie Mae/Lender Workout (a "Joint Workout"), as described in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.04: Course of Action – A Joint Workout;

- Foreclosure, as described in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.05: Course of Action - Foreclosure; and

- Note Sale or Discounted Loan Payoff, as described in Part V, Chapter 7: Non-Performing Mortgage Loans, Section
711.06: Course of Action – Note Sale Election or Discounted Loan Payoff.

A Lender Purchase of Mortgage Loan and a Lender Workout may be exercised solely by the Lender and in the Lender’s sole discretion, subject to the requirements of Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.02: Course of Action – Lender Purchase of Mortgage Loan and Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.03: Course of Action – Lender Workout Election. A Joint Workout must be agreed to jointly by Fannie Mae and the Lender, and implemented prior to the conclusion of a foreclosure, as provided in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.04: Course of Action – A Joint Workout. A Note Sale or Discounted Loan Payoff, as an alternative to foreclosure, must also be agreed to jointly by Fannie Mae and the Lender, as provided in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.06: Course of Action – Note Sale Election or Discounted Loan Payoff. Fannie Mae will generally follow the Dual Track Approach and, unless one of the other Courses of Action is being followed, a Foreclosure will be the applicable Course of Action.

711.02 Course of Action – Lender Purchase of Mortgage Loan

**LENDER PURCHASE OF A SECURITIZED MORTGAGE LOAN IS NOT PERMITTED UNLESS THE MORTGAGE LOAN HAS BEEN DELINQUENT FOR FOUR CONSECUTIVE MONTHS. ONLY AFTER THE PASSAGE OF SUCH FOUR CONSECUTIVE MONTH DELINQUENCY PERIOD MAY THE MORTGAGE LOAN BE REMOVED FROM THE SECURITY TRUST. A DELINQUENT MORTGAGE LOAN MUST BE REMOVED FROM THE SECURITY TRUST NOT LATER THAN 24 MONTHS AFTER INITIAL DELINQUENCY.**

711.02A Primary Risk Mortgage Loans

If the Non-Performing Mortgage Loan is four or more consecutive months delinquent, the Lender, at its option, may purchase the Mortgage Loan from Fannie Mae with its own funds and pursue its own course of action with respect to that Mortgage Loan.

711.02B Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, the Lender must specifically indicate this Course of Action on its SWAT, which will serve as documentation of the Lender’s agreement to repurchase the Mortgage Loan. Neither the purchase price nor any losses incurred on a Secondary Risk Mortgage Loan repurchased by the Lender pursuant to this Course of Action will be included in any loss sharing with Fannie Mae or be credited.
against the Lender’s recourse obligation but will be solely for the account of the Lender.

711.02C Purchase Price for Mortgage Loans

For Primary Risk Mortgage Loans and Secondary Risk Mortgage Loans purchased pursuant to this Section, unless otherwise provided in the Lender’s Contract, the purchase or repurchase price will be equal to:

- the then unpaid actual principal balance of the Mortgage Loan; plus
- interest as follows:
  - except for any Securitized Mortgage Loan, interest accrued through the purchase date; or
  - for any Securitized Mortgage Loan, interest for the entire month in which the purchase occurs based on the Security Balance remaining after applying the scheduled Mortgage Loan payment due on the first day of that month; plus
- any Prepayment Premium or Yield Maintenance owed to Fannie Mae as of the purchase date pursuant to the terms of the Note; less
- any Delinquency Advance made, but not reimbursed either by Fannie Mae or by or on behalf of the Borrower.

711.02D No Fannie Mae Approval Required

The election and implementation of this Course of Action does not require Fannie Mae’s concurrence or approval as long as the Lender complies with the foregoing requirements and exercises this option prior to the foreclosure sale or the conclusion of any other Course of Action.

711.02E Implementation of Course of Action

If this Course of Action is elected by the Lender, then the Lender may purchase the Non-Performing Mortgage Loan by:

- giving written notice to Fannie Mae of such election, or, if a Secondary Risk Mortgage Loan, indicating such election on the initial SWAT or updated SWAT, no later than 10 Business Days before the proposed purchase date, that Lender has elected to purchase the Mortgage Loan and identifying the anticipated purchase date;
- purchasing the Mortgage Loan on the identified purchase date at the purchase price as calculated in Part V, Chapter 7: Non-
Performing Mortgage Loans, Section 711.02C: Purchase Price for Mortgage Loans;

- purchasing the Mortgage Loan in the Lender’s own name or the name of an affiliate as indicated on the written notice of its election of this Course of Action, and thereafter implementing its own Course of Action with respect to that Mortgage Loan;

- delivering to Fannie Mae on the identified purchase date the purchase price, together with an original assignment of the Mortgage Loan, in recordable form for the applicable property jurisdiction, and such other assignment documents as may be necessary to fully assign, without recourse, representation, or warranty, Fannie Mae’s interest in the Mortgage Loan to the Lender; and

- all documents delivered to Fannie Mae for execution shall be pursuant to Part V, Chapter 4: Asset Management: Loan Document Administration, Section 404.01: Submission of Documents to Fannie Mae.

Within five Business Days following receipt from the Lender of the purchase price and the assignment, Fannie Mae will execute and return to the Lender the original assignment, together with:

- the original Note endorsed, without recourse, representation or warranty, to the Lender (or its affiliate);

- the original Mortgage Loan file; and

- such other documents as necessary to fully assign, without recourse, representation or warranty, Fannie Mae’s interest in the Mortgage Loan to the Lender (or its affiliate).

**711.03 Course of Action – Lender Workout Election**

**711.03A Lender Workout Defined**

With any Non-Performing Mortgage Loan in Monetary or Payment Default, the Lender may enter into an arrangement with the Borrower in which the Lender agrees to make its own loan and advance its own funds to the Borrower to cure the defaults (a “Lender Workout”).

Examples of instances where a Lender Workout may be appropriate include:

- Property cash flow shortfall is temporary in nature;

- the Mortgage Loan becomes delinquent within the first year following the sale of the Mortgage Loan to Fannie Mae;
- the cost of the Lender Workout to the Lender may be less than the cost to the Lender of a Joint Workout or foreclosure; or
- Mortgage Loans at Loss Level II or III.

711.03B Documentation and Terms of Lender Workout

A Lender Workout must be documented as a separate loan from the Lender to the Borrower to meet the Property's operating needs and fully cure the Monetary or Payment Default. The Lender may place whatever restrictions it deems appropriate on the disbursement and use of the funds. The Lender Workout loan may be unsecured, secured by a subordinate lien against the Property (with Fannie Mae’s prior approval), or secured by other collateral. Any subordinate lien, by its express terms, must be fully subordinated to all Mortgage Loans in favor of Fannie Mae, and must comply with the requirements for junior liens included in Parts I, II, and III. The Loan Documents evidencing the Lender Workout loan must clearly indicate that the loan does not in any way affect the status of the Mortgage Loans owned by Fannie Mae or any of Fannie Mae’s rights or remedies in connection therewith, and that the amount owed under the Lender Workout is owed only and directly to the Lender and is not added to Fannie Mae’s Mortgage Loan(s).

711.03C Lender Workout Has No Impact on Loss Sharing or Recourse Obligation

1. Primary Risk Mortgage Loans

Any sums lent by the Lender or expenses incurred by the Lender in a Lender Workout will not be included in the final settlement of loss for the Primary Risk Mortgage Loan.

2. Secondary Risk Mortgage Loans

Any losses incurred on a Secondary Risk Mortgage Loan as a result of the Lender Workout will be the obligation of the Lender but will not be applied as a credit against the Lender’s recourse obligation.

711.03D No Fannie Mae Approval Required

Before committing to a Lender Workout with the Borrower, the Lender must obtain the written approval of Fannie Mae Special Asset Management. Fannie Mae Special Asset Management will have 10 Business Days from receipt of written notice from the Lender, containing the terms of the Lender Workout to approve or disapprove the Lender Workout Course of Action. With its notice of its intention to enter into a Lender Workout, the Lender must deliver a copy of the proposed Lender Workout documents, including subordinate lien documentation, if applicable, to Fannie Mae Special Asset Management for review and approval prior to execution. The purpose of this review is to determine that:
the Lender Workout and related documents:

- do not modify or waive any of the terms of the Mortgage Loan(s), including the Note rate, term, or amortization;
- do not modify or waive any of the terms of the Collateral Agreements;
- do not limit, waive, or lessen Fannie Mae’s rights, claims, or remedies under its Security Instrument including, but not limited to, obtaining a priority claim in a bankruptcy proceeding as a result of lending money to the Borrower;
- do not prevent, or otherwise limit, Fannie Mae from enforcing its rights under the Mortgage Loan Documents in the event the Lender defaults under its workout with the Borrower; or
- do not violate any bond documentation or Security rules, if applicable;

- the term of the Lender Workout loan does not exceed 24 months; and

- Fannie Mae is satisfied with the performance of any previous Lender Workouts and the total of all Lender Workouts does not materially impact the Lender’s financial condition.

If the Non-Performing Mortgage Loan has been accelerated prior to notice of the Lender Workout, it is in Fannie Mae’s sole discretion to agree to accept less than the full payoff and reinstate the Mortgage Loan.

If Fannie Mae approves the Lender Workout, the Lender must deliver a copy of the executed Lender Workout documents, including a Subordination Agreement, if applicable, to Fannie Mae Special Asset Management and to Fannie Mae Asset Acquisition and Custody. If the Borrower subsequently defaults under the Mortgage Loan after the Lender Workout, then the Servicer must follow the procedure outlined in this Chapter for a Non-Performing Mortgage Loan as if no Lender Workout occurred.

711.03E Servicer Makes Delinquency Advances But Fails to Report Mortgage Loan Delinquent

If a Servicer advances P&I payments on a Mortgage Loan with a Monetary or Payment Default, but the Mortgage Loan has not been reported as delinquent on the Multifamily Delinquency System as required in this Chapter, such advances will be considered an unauthorized Lender Workout and will not be considered a Delinquency Advance.

711.03F Foreclosure Process Continues Unless Otherwise Agreed to by Fannie Mae
If a Lender Workout is approved, the foreclosure process will continue until the earlier of the curing of the defaults by the Lender Workout or the foreclosure sale. If Fannie Mae approves the Lender Workout, the Lender must fully implement the Lender Workout on the approved terms, and thereby cure all defaults, prior to any scheduled foreclosure sale or the conclusion of any other Course of Action by Fannie Mae. If the Lender Workout is proceeding and is likely to be consummated, Fannie Mae may agree to reschedule (but not cancel) the foreclosure sale. Any agreement to delay a foreclosure sale or any other Course of Action to allow the implementation of the Lender Workout will be solely in Fannie Mae’s discretion.

### 711.04 Course of Action – A Joint Workout

**JOINT WORKOUTS ARE NOT AVAILABLE FOR SECURITIZED MORTGAGE LOANS WHILE THE MORTGAGE LOAN REMAINS IN THE SECURITY TRUST.**

**711.04A** Joint Workout Defined

Either the Lender or Fannie Mae may propose that the Lender and Fannie Mae attempt to negotiate a Joint Workout with the Borrower with respect to a Non-Performing Mortgage Loan. A refinancing of the Non-Performing Mortgage Loan under Fannie Mae’s In Place Loan execution as described in Part V, Chapter 8: In Place Loans is a Joint Workout under this Chapter.

**711.04B** Delinquency Advances Must Be Made During Negotiation of Joint Workout

If Fannie Mae and the Lender agree upon a Joint Workout, then during the negotiation of the workout agreement, the Servicer must continue to make Delinquency Advances to Fannie Mae in accordance with the Lender’s Contract. (See the Checklist of Issues to Consider in Doing a Workout Analysis (Form 4809) to review the specific tasks to be completed prior to electing a Joint Fannie Mae/Servicer Workout.)

**711.04C** Joint Workout Process

The following is a general description of how a Joint Workout process might work.

1. **Fact-Finding Meeting**

   The first contact between the Borrower, Fannie Mae and the Lender will be a fact-finding meeting and will focus on:

   - explaining the Dual Track Approach and, if the Pre-Negotiation Letter has not been signed, executing the letter;
■ reviewing the documents necessary for the Servicer or Fannie Mae to complete its due diligence and the Asset Review (for a Primary Risk Mortgage Loan) or Asset Audit (for a Secondary Risk Mortgage Loan); and

■ the Borrower’s explanation of its requested relief.

2. Fannie Mae and Lender Meeting

A separate meeting between Fannie Mae and the Lender will focus on:

■ reviewing the Lender’s and Fannie Mae’s due diligence;

■ reviewing the Borrower’s request;

■ formulating a response to the Borrower’s request with emphasis on the source and use of funds necessary to implement the Joint Workout; and

■ the impact of the Joint Workout on the Lender’s servicing and loss sharing obligations to Fannie Mae and any modifications to each that need to be made.

It is important that any differences between Fannie Mae and the Lender be resolved at this meeting. If the Lender’s contribution to the Joint Workout or a modification to its servicing or loss sharing obligations must be documented, this must be included in a separate document between Fannie Mae and the Lender.

3. Workout Meeting with Borrower

If a Joint Workout appears feasible, Fannie Mae and the Lender will schedule a workout meeting with the Borrower. All parties, including Fannie Mae, the Lender, the Borrower, and their respective legal counsel, must attend and must allow enough time to facilitate a workout. Those in attendance must have authority to execute documents pursuant to a signed Pre-Negotiation Letter. Experience indicates that to be most productive, the workout meeting should start early in the morning and continue until a deal is reached or the parties agree to disagree.

4. Letter of Intent

If agreement is reached on all of the terms of the Joint Workout, counsel will draft a non-binding letter of intent, to be executed during the workout meeting. This letter of intent will set forth each party’s agreements and obligations until the formal, written modification documents are completed. The letter of intent must be specific enough to fully reflect the intent of the parties (other than any modifications to the Lender’s servicing or loss sharing obligations). Until the formal modification documents are completed and executed by all parties, there has been no modification of the terms of the Non-Performing Mortgage Loan or the Borrower’s obligations.
711.04D  Modification, Extension, and Forbearance Fees

The Lender is not permitted to charge or collect from the Borrower a fee for any modification, extension, or forbearance of a Mortgage Loan without the prior written consent of Fannie Mae. If the Lender has a loss sharing obligation to Fannie Mae, then Fannie Mae and the Lender may jointly elect to charge the Borrower a modification, extension or forbearance fee. If Fannie Mae and the Lender elect to charge such fee, and so long as the Lender has a loss sharing obligation to Fannie Mae, Fannie Mae will share such fee with the Lender on the basis of:

- if the applicable Mortgage Loan is a Pre-Review Large Mortgage Loan under Fannie Mae’s Multifamily Underwriting Standards (Form 4660), then pro rata between the Lender and Fannie Mae in accordance with their respective loss sharing percentages for such Mortgage Loan (taking into account any Modified Risk Loss Sharing (as defined in the Loss Sharing Addendum) applicable to the Mortgage Loan); or

- if the applicable Mortgage Loan is not a Pre-Review Large Mortgage Loan, then 40 percent to the Lender and 60 percent to Fannie Mae.

711.04E  Triggering Modification Fees; Other Fees

If a Triggering Modification has occurred, a Triggering Modification Interim Loss Sharing calculation was made and a reserve was established against the Lender’s Operational Liquidity (as provided in the Loss Sharing Addendum), any fees other than those provided for in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.04D: Modification, Extension, and Forbearance Fees shall be split between Fannie Mae and the Servicer in accordance with their respective loss sharing percentages at the time of the Triggering Modification (taking into account any Modified Risk Loss Sharing applicable to the Mortgage Loan). Except as provided in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.04D: Modification, Extension, and Forbearance Fees with respect to modification, extension and forbearance fees, and any fees required by Fannie Mae in connection with a Triggering Modification, no other fees required by Fannie Mae in connection with a Mortgage Loan modification, extension or forbearance shall be split between the Lender and Fannie Mae.

711.04F  Foreclosure Process Continues Unless Otherwise Agreed to by Fannie Mae

The discussions with the Borrower in attempting to reach agreement on a Joint Workout are part of Track One of the Dual Track Approach (maintaining dialogue with the Borrower to attempt to resolve the defaults) as outlined in this Chapter. Accordingly, Track Two, the Foreclosure Track, of the Dual Track Approach will continue and will not be
postponed or delayed until agreement with the Borrower has been reached and the Joint Workout has been documented. If the Joint Workout is proceeding and is likely to be consummated, Fannie Mae may agree to reschedule (but not cancel) the foreclosure sale. If the parties are unable to agree on a Joint Workout, the parties shall continue to pursue the Track Two approach and proceed to foreclosure or such other Fannie Mae-approved course of action.

### 711.05 Course of Action - Foreclosure

**LENDER PURCHASE OF A SECURITIZED MORTGAGE LOAN IS NOT PERMITTED UNLESS THE MORTGAGE LOAN HAS BEEN DELINQUENT FOR FOUR CONSECUTIVE MONTHS. ONLY AFTER THE PASSAGE OF SUCH FOUR CONSECUTIVE MONTH DELINQUENCY PERIOD MAY THE MORTGAGE LOAN BE REMOVED FROM THE SECURITY TRUST. A DELINQUENT MORTGAGE LOAN MUST BE REMOVED FROM THE SECURITY TRUST NOT LATER THAN 24 MONTHS AFTER INITIAL DELINQUENCY.**

#### 711.05A Primary Risk Mortgage Loans

Unless one of the other Courses of Action described in this Section has been selected, Fannie Mae will instruct outside counsel to vigorously pursue a foreclosure, following the foreclosure process described under Track Two of the Dual Track Approach in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 712: Dual Track Approach.

#### 711.05B Secondary Risk Mortgage Loans

Unless one of the other Courses of Action described in this Section has been selected and, if part of a SWAT approved by Fannie Mae, the Special Servicer will instruct outside counsel to vigorously pursue a foreclosure, following the foreclosure process described under Track Two of the Dual Track Approach in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 712: Dual Track Approach.

If foreclosure is the approved Course of Action for a Non-Performing Secondary Risk Mortgage Loan, the Lender must purchase the Mortgage Loan from Fannie Mae. Such purchase of the Mortgage Loan from Fannie Mae is not considered to be the exercise of the Course of Action set forth in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.02: Course of Action – Lender Purchase of Mortgage Loan, but is part of the foreclosure Course of Action under this Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.05: Course of Action - Foreclosure and is to permit the Lender to credit bid at the foreclosure sale.
and/or if the winning bidder, to permit the Lender to hold title to and operate
the Property in the name of the Lender or its designee. In connection with
exercising the foreclosure Course of Action, the Lender must purchase the
Mortgage Loan under one of the following options, either of which must be
identified in the SWAT submitted to Fannie Mae.

1. **Purchase Prior to Foreclosure**

   The Lender may purchase the Non-Performing Secondary Risk
   Mortgage Loan prior to foreclosure by:

   - indicating on the initial SWAT, or updated SWAT received by
     Fannie Mae no later than 10 Business Days before the
     proposed purchase date, that Lender has elected to purchase
     the Mortgage Loan prior to foreclosure, and identifying the
     anticipated purchase date;

   - purchasing, on the identified purchase date, the Mortgage Loan
     from Fannie Mae at the purchase price as calculated below in
     this Part V, Section 711.05.B;

   - purchasing the Mortgage Loan in the Lender’s own name (or
     the name of an affiliate as indicated on the approved SWAT),
     and thereafter implementing the foreclosure process in its own
     name;

   - within five Business Days following receipt from the Lender of
     the purchase price together with an original assignment of the
     Mortgage Loan, in recordable form, Fannie Mae will execute
     and return the original assignment, together with:
       - the original Note endorsed, without recourse,
         representation or warranty, to the Lender (or its affiliate);
       - the original Mortgage Loan file; and
       - such other documents as necessary to fully assign, without
         recourse, representation or warranty, Fannie Mae’s interest
         in the Mortgage Loan to the Lender (or its affiliate);

   - all documents delivered to Fannie Mae for execution shall be
     pursuant to Part V, Chapter 4: Asset Management: Loan
     Document Administration, Section 404.01: Submission of
     Documents to Fannie Mae;

   - after completion of the foreclosure, the Lender or its affiliate will
     hold title to the Property until disposition;

   - the Lender will continue to submit updated SWATs for Fannie
     Mae’s approval until disposition of the Property, at which time
     the Lender will submit its Loss Notification Form (Form 4817)
     (as provided in the Lender’s Contract) to Fannie Mae; and
if the Non-Performing Secondary Risk Mortgage Loan reinstates by the Borrower following the Lender’s purchase but prior to the foreclosure sale, the Lender will not be entitled to credit any future losses on the Mortgage Loan against its recourse obligation.

2. Purchase Immediately After Foreclosure

The Lender may purchase the Non-Performing Secondary Risk Mortgage Loan immediately following foreclosure by:

- indicating on the initial SWAT, or updated SWAT received by Fannie Mae no later than 60 Business Days before the foreclosure sale date, that Lender has elected to purchase the Mortgage Loan immediately following foreclosure (assuming Fannie Mae is the winning bidder at the foreclosure sale), and identifying the anticipated foreclosure sale date;

- including with such SWAT an initial Asset Audit prepared no later than 60 days following the Date of Default, and providing to Fannie Mae a final and complete Asset Audit at least 60 Business Days prior to foreclosure;

- no later than 10 Business Days prior to the foreclosure sale date, prepare and deliver to Fannie Mae an original Special Warranty Deed, in recordable form, and an escrow letter as provided below. Fannie Mae will execute and deliver to an agreed-upon escrow agent, pursuant to escrow instructions also prepared by the Lender, the Special Warranty Deed, together with (i) the original Note endorsed, without recourse, representation or warranty, to the Lender, and (ii) the original Mortgage Loan file. Such escrow letter must contain instructions that require the escrow agent, within five Business Days following the foreclosure sale date, to either (a) deliver the Special Warranty Deed and other required documentation to Lender upon Fannie Mae’s confirmation of receipt of the purchase price or (b) return the original Special Warranty Deed and all other documentation to Fannie Mae;

- all documents delivered to Fannie Mae for execution shall be pursuant to Part V, Chapter 4: Asset Management: Loan Document Administration, Section 404.01: Submission of Documents to Fannie Mae;

- on the foreclosure sale date, the Lender purchases the Property from Fannie Mae at the purchase price as calculated below in this Part V, Section 711.05.B;

- the Lender purchases the Mortgage Loan in its own name (or the name of an affiliate as indicated on the approved SWAT), and thereafter owns, operates and manages the Property until
disposition;

- the Special Warranty Deed from Fannie Mae must be filed of record immediately following the recording of the foreclosure or trustee’s deed into Fannie Mae; and

- the Lender will continue to submit updated SWATs for Fannie Mae’s approval until disposition of the Property, at which time the Lender will submit its Loss Notification Form (Form 4817) to Fannie Mae.

### 3. Purchase Price for Purchase Immediately Prior To or After Foreclosure

For Secondary Risk Mortgage Loans purchased pursuant to this Section, unless otherwise provided in the Lender’s Contract, the purchase or repurchase price will be equal to:

- the then unpaid actual principal balance of the Mortgage Loan; plus

- interest as follows:
  - except for any Securitized Mortgage Loan, interest accrued through the purchase date; or
  - for any Securitized Mortgage Loan, interest for the entire month in which the purchase occurs based on the Security Balance remaining after applying the scheduled Mortgage Loan payment due on the first day of that month; less

- any Delinquency Advance made, but not reimbursed either by Fannie Mae or by or on behalf of the Borrower.

### 711.05C Deed-in-Lieu of Foreclosure

Fannie Mae, in its sole discretion, may or may not elect to take a deed-in-lieu of foreclosure for any Primary Risk or Secondary Risk Mortgage Loan.

### 711.05D Management of Property Post Title Vesting in Fannie Mae

If Lender has made a Deferred Asset Valuation Date Election under its Loss Sharing Addendum, and title to a Property has vested in Fannie Mae, its affiliate or nominee as a result of a Foreclosure Event (as defined in the Loss Sharing Addendum) or other judicial process, Fannie Mae shall, except for matters relating to life/safety at the Property, consult with the Lender for purposes of making joint decisions with the Lender with respect to major decisions regarding the management and disposition of the Property, including but not limited to:
the timing and terms of listing the Property for sale;

the acceptance of terms of sale of the Property;

any financing of the Property;

approval of any business plan with respect to the Property;

approval of each annual budget for the Property;

any deviation from the approved budget by more than 20 percent with respect to any line item on a semi-annual basis;

approval and implementation of any rehabilitation or renovation plan with respect to the Property;

any decision to and implementation of a plan to develop any or all of the Property;

any capital expenditures in excess of $50,000 with respect to the Property;

engagement of any professional advisors, other than in the ordinary course of business;

entering into any Material Commercial Lease of any space within a Property, other than in the ordinary course of business;

commencement, institution or settlement of any legal proceedings with respect to the Property, other than eviction and termination proceedings in respect of tenant leases and other non-material legal proceedings for the collection of amounts due and owing from third parties and tenants undertaken in the ordinary course of business; and

the decision and implementation of any plan not to rebuild or restore the Property following any casualty or condemnation.

Any request by Fannie Mae with respect to a major decision shall be responded to in writing by the Lender within two Business Days of the making of such request. Any request with respect to a major decision not responded to by the Lender within two Business Days shall be deemed approved.

711.05E Deficiency Suits

1. General

If a foreclosure sale is conducted with respect to a Property, Fannie Mae shall determine whether to pursue a deficiency against the Borrower or pursue any guarantor who may have liability with respect to such Mortgage Loan post-foreclosure or other final disposition of the Mortgage Loan (a "Deficiency Suit"), if such action is available under applicable state law.
Nothing in this Section E shall be deemed to relieve either Lender or Fannie Mae from any claims of indemnification under the terms of their Contract.

2. Fannie Mae Deficiency Suit Election

If Fannie Mae elects to pursue a Deficiency Suit, and the Lender’s Allocable Percentage per the Loss Sharing Addendum with respect to the relevant Mortgage Loan is greater than zero, the Lender may elect to share in the cost and recovery related to such Deficiency Suit. If the Lender elects to participate in such Deficiency Suit, Fannie Mae shall bear 67 percent of the costs and expenses of such Deficiency Suit, and the Lender shall bear 33 percent of the costs and expenses of such Deficiency Suit. Likewise, any recovery resulting from the Deficiency Suit shall be shared 67 percent to Fannie Mae and 33 percent to the Lender.

If Fannie Mae elects to pursue a Deficiency Suit, whether or not the Lender elects to participate in such Deficiency Suit, Fannie Mae shall make all decisions in its sole and absolute discretion regarding such Deficiency Suit, including but not limited to, selection of counsel, election of venue, relief to be sought, and the settlement of the Deficiency Suit.

3. Lender Deficiency Suit Election

If Fannie Mae elects not to pursue a Deficiency Suit following foreclosure, at the Lender’s request, Fannie Mae shall assign the Deficiency Suit to the Lender, to the extent permitted by law and provided that such assignment shall be at no cost to Fannie Mae, and the Lender may thereafter pursue such Deficiency Suit in its own name. If the Lender does pursue the Deficiency Suit, Fannie Mae may elect to participate in the cost and recovery of such Deficiency Suit. All costs and expenses of such Deficiency Suit will be shared equally between the Lender and Fannie Mae, and likewise, any recovery resulting from such Deficiency Suit shall be shared equally between the Lender and Fannie Mae.

If Fannie Mae elects not to pursue a Deficiency Suit, and the Lender elects to pursue such Deficiency Suit in its own name, Lender shall make all decisions in its sole and absolute discretion regarding such Deficiency Suit, including but not limited to selection of counsel, election of venue, relief to be sought, and the settlement of the Deficiency Suit.

4. Costs and Expenses; Loss Sharing

If the Lender and Fannie Mae are sharing the costs and expenses of any Deficiency Suit, the party prosecuting such Deficiency Suit shall submit copies of all invoices to the other party for reimbursement of the other party’s share of all costs and expenses incurred in connection with such Deficiency Suit. Such invoices shall be submitted no more frequently than every three months and shall be paid within 30 days of receipt.

Any recovery resulting from a Deficiency Suit, regardless of whether Fannie Mae or the Lender has participated in such Deficiency Suit,
shall not affect the determination and payment of loss sharing pursuant to the Loss Sharing Addendum.

5. Withdrawal from Deficiency Suit

If Fannie Mae and the Lender are participating in a Deficiency Suit, either party may elect at any time to withdraw from the Deficiency Suit, in which case the withdrawing party shall be obligated to share the costs and expenses in the percentages set forth above through the date of its withdrawal. The withdrawing party shall not participate in any recovery.

### 711.06 Course of Action – Note Sale Election or Discounted Loan Payoff

**NOTE SALES OR DISCOUNTED LOAN PAYOFFS ARE NOT AVAILABLE FOR SECURITIZED MORTGAGE LOANS WHILE THE MORTGAGE LOAN REMAINS IN THE SECURITY TRUST.**

711.06A Note Sale and Discounted Loan Payoff Defined

As an alternative to foreclosure of the Property, it may be the best exit strategy for Fannie Mae and the Lender to agree to sell Fannie Mae’s interest as the Noteholder. A sale of the Non-Performing Mortgage Loan to a third party is a “Note Sale”, and accepting less than the full payoff from the Borrower is a “Discounted Loan Payoff”. Such sale of the Non-Performing Mortgage Loan or acceptance of a Discounted Loan Payoff must be on terms mutually-agreeable to Fannie Mae and Lender.

711.06B Lender Ability to Bid

If Fannie Mae and the Lender agree to consider a Note Sale as the Course of Action for a Non-Performing Primary Risk Mortgage Loan, the Lender will have the option to participate in the Note Sale bidding process with other potential third-party purchasers after Fannie Mae and the Lender have mutually-agreed upon the Note Sale terms and pricing floor. The Lender’s bid will be considered by Fannie Mae on the same basis as any other third-party bids received for the Note Sale. If the Lender is the successful bidder, the Lender will purchase the Non-Performing Mortgage Loan on the same terms as published to all bidders by Fannie Mae or, if utilized, the Note Sale broker. Any such sale of the Non-Performing Mortgage Loan to the Lender shall be without recourse, representation or warranty by Fannie Mae, except as otherwise agreed by Fannie Mae.

711.06C Any Note Sale or Discounted Payoff Gives Rise to Loss Sharing Event

Any loss incurred by Fannie Mae in connection with a Note Sale or Discounted Payoff is a loss sharing event as contemplated by the Lender’s
Note Sale – Secondary Risk Mortgage Loans

For Non-Performing Secondary Risk Mortgage Loans, the selection of a Note Sale as the Course of Action must be included in the SWAT submitted to Fannie Mae for approval. The approved Note Sales price will be the Asset Value for purposes of determining the reduction in the Lender’s recourse obligation.

If a Note Sale is the approved Course of Action for a Non-Performing Secondary Risk Mortgage Loan, the Lender must purchase the Mortgage Loan from Fannie Mae under one of the following options, either of which must be identified in the SWAT submitted to Fannie Mae.

1. Purchase Prior to Consummation of the Note Sale with the Third-Party Note Purchaser

The Lender may purchase the Non-Performing Secondary Risk Mortgage Loan from Fannie Mae prior to consummation of the Note Sale by:

- indicating such election on the initial SWAT or updated SWAT, received by Fannie Mae no later than 15 Business Days before the proposed purchase date, that Lender has elected to purchase the Mortgage Loan prior to the Note Sale closing and identifying the anticipated purchase date;

- purchasing, on the identified purchase date, the Mortgage Loan from Fannie Mae at the purchase price as calculated in Part V, Section 711.05.B.3;

- purchasing the Mortgage Loan in the Lender’s own name (or the name of an affiliate as indicated on the approved SWAT), and thereafter consummating the Note Sale with the third-party Note purchaser;

- within five Business Days following receipt from the Lender of the purchase price together with an original assignment of the Mortgage Loan, in recordable form, Fannie Mae will execute and return the original assignment, together with:
  - the original Note endorsed, without recourse, representation or warranty, to the Lender (or its affiliate);
  - the original Mortgage Loan file; and
  - such other documents as necessary to fully assign, without recourse, representation or warranty, Fannie Mae’s interest in the Mortgage Loan to Lender (or its affiliate); and

- all documents delivered to Fannie Mae for execution shall be pursuant to Part V, Chapter 4: Asset Management: Loan
2. Purchase Simultaneously with Consummation of the Note Sale with the Third-Party Note Purchaser

The Lender may purchase the Non-Performing Secondary Risk Mortgage Loan from Fannie Mae simultaneously with its consummation of the Note Sale by:

- indicating such election on the initial SWAT or updated SWAT, received by Fannie Mae no later than 30 calendar days before the proposed purchase date, that Lender has elected to purchase the Mortgage Loan simultaneously with the Note Sale closing and identifying the anticipated purchase date;

- no later than 10 Business Days prior to the purchase date, prepare and deliver to Fannie Mae an original assignment of the Mortgage Loan, in recordable form, and an escrow instruction letter as provided below. Fannie Mae will execute and deliver to an agreed-upon escrow agent, pursuant to the escrow instruction letter, the original assignment, together with:
  - the original Note endorsed, without recourse, representation or warranty, to the Lender (or its affiliate);
  - the original Mortgage Loan file; and
  - such other documents as necessary to fully assign, without recourse, representation or warranty, Fannie Mae’s interest in the Mortgage Loan to Lender (or its affiliate). Such escrow instruction letter must contain instructions that require the escrow agent, within five Business Days following the closing of the Note Sale, to either (a) deliver the original assignment and other required documentation to Lender upon Fannie Mae’s confirmation of receipt of the purchase price, or (b) return the original assignment and all other documentation to Fannie Mae;

- all documents delivered to Fannie Mae for execution shall be pursuant to Part V, Chapter 4: Asset Management: Loan Document Administration, Section 404.01: Submission of Documents to Fannie Mae;

- on the date of closing of the Note Sale with the third-party purchaser, the Lender will purchase the Mortgage Loan from Fannie Mae at the purchase price as calculated in Part V, Section 711.05.B.3;

- the Lender purchases the Mortgage Loan in its own name (or in the name of an affiliate as indicated on the approved SWAT),
and thereafter simultaneously closes the Note Sale with the third-party purchaser; and

- the assignment of the Mortgage Loan from Fannie Mae must be filed of record prior to the recording of the assignment from the Lender (or its affiliate) to the third-party purchaser of the Note.

**711.06E  Discounted Loan Payoff - Secondary Risk Mortgage Loans**

For Non-Performing Secondary Risk Mortgage Loans, the selection of a Discounted Loan Payoff as the Course of Action must be included in the SWAT submitted to Fannie Mae for approval. The approved Discounted Loan Payoff amount will be the Asset Value for purposes of determining the reduction in the Lender’s recourse obligation.

If a Discounted Loan Payoff is the approved Course of Action for a Non-Performing Secondary Risk Mortgage Loan, the Lender shall implement the Course of Action by:

- indicating in the initial SWAT, or updated SWAT received by Fannie Mae no later than 10 Business Days before the proposed payoff date, that Lender has elected such Course of Action and identifying the anticipated payoff date;

- delivering to Fannie Mae on the identified payoff date the payoff amount as calculated in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.02C: Purchase Price for Mortgage Loans; and

- the Lender must follow the post-payoff actions as described in Part V, Chapter 2: Reporting and Remitting, Section 215: Post-Payoff Actions.

**Section 712  Dual Track Approach**
The Dual Track Approach and other requirements of this Part V, Section 712 apply to all Non-Performing Primary Risk Mortgage Loans and Non-Performing Secondary Risk Mortgage Loans.

For Secondary Risk Mortgage Loans, the Special Servicer must follow the Dual Track Approach as outlined here, unless revised by an approved SWAT. Unless the Lender has previously elected either the Lender Purchase or Lender Workout Course of Action, the Dual Track Approach (including the foreclosure process) must be immediately commenced by the Special Servicer following the transfer of the Non-Performing Mortgage Loan to the Special Servicer for default resolution.

712.01 Dual Track Approach Generally

The most effective and efficient approach to resolving a Non-Performing Mortgage Loan requires pursuing dual tracks concurrently:

- dialogue with the Borrower; and
- foreclosure process.

To be effective, both tracks of the Dual Track Approach must be pursued aggressively to ensure the Borrower understands the gravity of its default. The Dual Track Approach must be implemented immediately for all reported defaults, regardless of the Special Servicer's subsequent election of remedy to resolve the default. While the Dual Track Approach is described in detail in this Chapter, the default resolution process remains a case-specific process and not every case will fit perfectly into this approach.

712.02 Waiver of Dual Track Approach

For Secondary Risk Mortgage Loans, exceptions to the Dual Track Approach require a written waiver from Fannie Mae Special Asset Management, in the approved SWAT submitted pursuant to Part V, Chapter 7: Non-Performing Mortgage Loans, Section 705.01: Funding Capital Repairs During Default Resolution. If the outside counsel determines that a waiver to the Dual Track Approach is required by local law or if the Special Servicer determines that a waiver will result in more effective resolution of the default, then the Special Servicer must submit a written waiver request to Fannie Mae Special Asset Management in the SWAT, providing the reasoning for the waiver.
712.03A Purpose of Track One

Track one involves maintaining a dialogue with the Borrower during calendar days two (2) through 60, beginning immediately after the initial Payment Default or discovery of a non-monetary default that may become a Performance Default if not timely cured. When there is a default under a Mortgage Loan, it is absolutely essential that the Servicer immediately contact the Borrower to determine the cause of the default and to begin discussion on how the default will be cured. Until the Non-Performing Mortgage Loan is transferred to special servicing, the Servicer must maintain a dialogue with the Borrower and Fannie Mae Special Asset Management about an acceptable resolution of the Mortgage Loan’s default.

The first 30 calendar days of the Dialogue Track are focused on working with the Borrower to collect all sums due and owing or curing any possible Performance Default. While calendar days 31 through 60 continue to focus on collections or curing the default, the focus also includes preparing a Non-Performing Mortgage Loan for default resolution.

712.03B First 30 Calendar Days after a Default

During this stage of the Dialogue Track, a Servicer must act quickly and aggressively to establish contact with the Borrower to determine:

- the cause of the Performance Default or Payment Default;
- whether the Borrower will cure the Performance Default within the prescribed cure period or the Payment Default prior to the end of the month in which the missed payment occurred;
- the likelihood of the Borrower making the next month’s payment; and
- if the missed payment will not be made, whether the Borrower will voluntarily turn over the monthly net operating income of the Property.

Because Fannie Mae requires Servicers to report all delinquent Mortgage Loans as of the 17th day of the month, Servicers must begin calling and corresponding with delinquent Borrowers as early as a few days after the Payment Due Date or the day before the Late Fee becomes due. These practices facilitate accurate and timely delinquency reporting to Fannie Mae. Waiting until the Late Fee becomes due to begin contacting delinquent Borrowers jeopardizes the Servicer’s ability to report and certify delinquent Mortgage Loans on a timely and complete basis.

712.03C Calendar Days 31 through 60 after a Payment Default or Performance Default
1. **Primary Risk Mortgage Loans**

   During calendar days 31 through 60 after a Payment Default or Performance Default, or until the Non-Performing Primary Risk Mortgage Loan is transferred to Fannie Mae Special Asset Management as provided in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 707.01: Transfer to Special Servicing, the Servicer must remain focused on aggressively pursuing the Borrower to collect all amounts due or assure a cure of the Performance Default. The Servicer must continue to call and correspond with the Borrower and make every attempt to resolve the Payment Default or Performance Default.

2. **Secondary Risk Mortgage Loans**

   For Secondary Risk Mortgage Loans, Fannie Mae expects aggressive communication with the Borrower to attempt to resolve the Payment Default or Performance Default quickly, before the need to transfer the Non-Performing Mortgage Loan to its special servicing to prepare the SWAT.

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712.03D  **Cessation of Dialogue with the Borrower**

1. **Cessation of Negotiations with the Borrower**

   Continuing an open dialogue with the Borrower is premised on the Borrower providing documentation necessary to complete:

   - the Servicing Transfer Memo for Primary Risk Mortgage Loans;
   - or
   - the SWAT for Secondary Risk Mortgage Loans.

   It is expected that the Borrower will account for and remit the monthly net operating income from the Property to the Servicer. If the Borrower is not willing to account for and remit the monthly net operating income to the Servicer, then further negotiations with the Borrower must cease immediately.

2. **Primary Risk Mortgage Loans**

   Upon transfer of the Primary Risk Mortgage Loan to Fannie Mae Special Asset Management, the Servicer must cease any further dialogue or correspondence with the Borrower regarding the status of the Non-Performing Mortgage Loan or the Borrower's efforts to cure the default. If the Servicer must engage in further discussions with the Borrower, a representative of Fannie Mae Special Asset Management must be included in the discussions.

3. **Secondary Risk Mortgage Loans**

   Upon transfer of the Secondary Risk Mortgage Loan to the Servicer's special servicing unit, the Servicer must document any further
dialogue or correspondence with the Borrower regarding the status of the Non-Performing Mortgage Loan or the Borrower's efforts to cure the default in its SWAT.

712.04  Track Two: Foreclosure Process

712.04A  The Foreclosure Process

1. Generally

Track two involves initiating the foreclosure process. Experience has shown that if the foreclosure process is delayed until the parties know whether a workout is achievable or an alternative Course of Action is preferred, valuable time is lost. Initiating the foreclosure process has the added benefit of keeping the parties focused on the problem. This overall approach necessarily requires:

- more formal communication with the Borrower; and
- use of outside counsel to document the relationship.

While relationships do not have to be hostile, the Special Servicer's relationship with the Borrower must be based with a view toward loss mitigation. If the Non-Performing Mortgage Loan is non-recourse to the Borrower, immediate action is necessary to ensure that the Property is not allowed to deteriorate and that net operating income is accounted for and paid each month. Depending on the jurisdiction, the monthly net operating income (gross monthly income after payment of ordinary and customary operating expenses – exclusive of capital expenditures, repairs, or payments to Borrower's affiliates) should be paid directly to the Servicer for remittance to Fannie Mae or held by a receiver until the delinquency is resolved.

2. Engagement of Counsel

The foreclosure process begins with the engagement of outside counsel in the Property jurisdiction as provided in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 710: Engagement of Legal Counsel; however, some of the preliminary notices prior to foreclosure (for example, notice of default, intent to accelerate, or acceleration) may be prepared by the Special Servicer's in-house counsel. Generally, the Special Servicer will direct outside counsel to:

- send or cause to be sent to the Borrower a formal written notice of default or other preliminary notices required prior to foreclosure;
- take immediate action to get control of the net operating income; and
- commence foreclosure.
Outside counsel must furnish the Special Servicer with copies of all documents that are sent to the Borrower or filed with a court (with copies to the Servicer on Primary Risk Mortgage Loans, and to Fannie Mae on Secondary Risk Mortgage Loans) in connection with the foreclosure and any related bankruptcy or other litigation, so that all parties may stay apprised of the status of the foreclosure.

3. Appraisal

If an Appraisal is required as part of the foreclosure process or any related bankruptcy or litigation, the Special Servicer will engage the appraiser using the Form Letter of Engagement for Appraiser (Form 4814). If the Special Servicer determines that the Appraisal should be covered by the attorney-client privilege and kept confidential, the Special Servicer should request either outside counsel or its in-house counsel to send the Engagement Letter for Appraiser. Prior to engaging the appraiser under the attorney-client privilege, the Special Servicer should confirm with outside counsel whether the privilege is likely to apply and what, if any, additional steps would be required to better ensure the protection of the attorney-client privilege. For Secondary Risk Mortgage Loans, if the Special Servicer elects to change the instructions to the appraiser, such request must be included in the SWAT. The cost for this Appraisal is a Delinquency Resolution Cost.

4. Postponement of Foreclosure Sale

Because a foreclosure sale may be postponed due to an impending workout or other alternative Course of Action, or a bankruptcy or other litigation, the Special Servicer must notify outside counsel to confirm the foreclosure sale prior to the scheduled foreclosure date. If the foreclosure sale is to be postponed, the Special Servicer will provide outside counsel with a new sale date, place, and time of the sale.

712.04B REO Management

1. Maximization of Value of REO

Following foreclosure or other acquisition of title to the Property, the Special Servicer must diligently attempt to maximize the value of any REO acquired with an objective of ensuring that the physical and economic occupancy of the REO is at or above that of comparable property located in the same market as the REO.

2. “Walk Through” Report

To maximize the value of an REO, the Special Servicer must prepare a “walk-through” report detailing the rental status and condition of each unit with recommendations for repair and cost estimates for such repair. (With respect to individual units in a cooperative property, the Special Servicer will not be required to inspect any unit that is not sponsor-owned, vacant, or otherwise permitted to be inspected pursuant to applicable Loan Documents.) This report will be the basis for a management and marketing
plan to be prepared by the Special Servicer (for Secondary Risk Mortgage Loans, this will be part of a SWAT submission).

3. Management and Market Plan

The management and marketing plan must include, at a minimum:

- staffing requirements;
- policies regarding tenant applications;
- due diligence;
- credit and previous history;
- late charges;
- returned checks;
- collection of delinquent rents;
- advertising;
- maintenance procedures;
- security deposits;
- rental collections and make-ready procedures;
- comparable rental data;
- information regarding target markets;
- tenant profiles and updated reports when necessary; and
- plans for repairing and restoring the REO to marketable condition, with improvements carefully underwritten to avoid over-improvements to the REO in comparison with similar property in the same market as that in which the REO is located.


It is expected that under ordinary circumstances, the time frame for maximizing the value must not exceed more than six (6) months from the date of acquisition of title to the REO.

The "walk-through" report and management and marketing plan must be in writing and part of the Special Servicer's Servicing File. The report and plan must be completed within one (1) month after the date of acquisition of title to the REO and become a part of Fannie Mae's files for Primary Risk Mortgage Loans or contained in a SWAT submitted with respect to a Secondary Risk Mortgage Loan. The Special Servicer must manage and dispose of the REO in accordance with such management and marketing plan. The REO management and marketing plan must be updated as changed circumstances require and, if a Secondary Risk
Mortgage Loan, resubmitted to Fannie Mae as an updated SWAT, either upon the earlier of:

- as new information is available to the Special Servicer as to the management or marketing of the REO; or
- every six (6) months.

712.05  Description of Contractual Relationships

712.05A  Two Contractual Relationships

In resolving delinquencies, two distinct and separate contractual relationships are involved, as follows:

- One is the Borrower/noteholder (Fannie Mae) relationship evidenced by the Loan Documents.
- The other is the Fannie Mae/Lender relationship evidenced by the Lender's Contract and the Guide.

When the Borrower is in default on the Mortgage Loan, the Borrower is in default under its contractual relationship with Fannie Mae as the noteholder. The Lender's Delinquency Advance of the scheduled Mortgage Loan payments is based on the Lender's Contract with Fannie Mae and does not cure any default under the Mortgage Loan nor advance the LPI date. The difference between the actual payment made by the Borrower and the scheduled payment made by the Lender is part of the final settlement of loss that is governed by the Lender's Contract.

712.05B  No Disclosure of Lender’s Contract Terms to Borrower; Borrower Not a Third-Party Beneficiary of Lender Contract

Neither the Lender nor the Servicer (if not the same) must discuss the Fannie Mae/Lender contractual relationship with the Borrower. If the Borrower does not make a payment, regardless of whether the Lender makes a Delinquency Advance of the scheduled payment to Fannie Mae as part of its contractual obligation, the Mortgage Loan must be reported as delinquent by the Servicer and Fannie Mae's records will reflect the Mortgage Loan as delinquent. The Borrower is not a party to, nor a beneficiary of, the Lender’s Contract between Fannie Mae and the Lender. The Lender's obligation to make Delinquency Advances to Fannie Mae has no impact on the Borrower's obligation to make its payments under the terms of the Note.

712.05C  Primary Risk Mortgage Loans

Because the Lender does not retain an interest in the Mortgage Loan after selling the Mortgage Loan to Fannie Mae, for Primary Risk
Mortgage Loans the Lender does not have the authority to take any actions that may impair Fannie Mae's rights or remedies, without Fannie Mae's prior written approval, including, but not limited to:

- making representations on behalf of Fannie Mae;
- waiving rights or remedies of Fannie Mae under the Loan Documents;
- modifying or altering the Loan Documents; or
- voting or making elections for Fannie Mae in any bankruptcy court proceeding.

### 712.05D Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, the scope of the Special Servicer's authority to take any actions on behalf of Fannie Mae shall be expressly provided in the limited power of attorney granted by Fannie Mae.

### 712.06 Asset Audits for Secondary Risk Mortgage Loans

#### 712.06A Purpose of Asset Audits

An Asset Audit involves much of the same due diligence as the Lender performs during underwriting. This "re-underwriting" is essential to determine:

- the cause of the default;
- the current financial condition of the Borrower;
- the condition of the Property;
- the current market;
- the current condition of the Property management; and
- the cost of curing the default, including sources and uses of funds.

#### 712.06B Personnel Performing Asset Audits

The Asset Audit must be conducted by experienced workout staff of the Servicer who are not the same personnel as those who inspected the Property and prepared any asset review for the Lender when the Mortgage Loan was originated.

#### 712.06C Timing of Asset Audits

Simultaneously with pursuing the Dual Track Approach, the
Servicer must submit an Asset Audit to Fannie Mae Special Asset Management within 60 calendar days after the Date of Default as part of the SWAT.

Portions of the Asset Audit may take longer than 60 days, such as an environmental assessment and a lead-based paint risk assessment for any Property built before December 31, 1978. If this is the case, all of the information available by the 60th day after the Date of Default must be given to Fannie Mae Special Asset Management. The Servicer may submit a supplement to the Asset Audit as soon as the incomplete items are received. This process will enable Fannie Mae Special Asset Management to become aware of the major issues related to the Mortgage Loan default.

If the Servicer fails to timely provide a completed Asset Audit to Fannie Mae, Fannie Mae reserves the right to perform the Asset Audit itself or through a third party and assess the Servicer for the cost of the Asset Audit.

712.06D Content of Asset Audits

The Asset Audit must contain, at a minimum, the following:

- a determination of whether the default was economic-related or management-related;
- an on-site inspection to determine the physical condition and occupancy-level of the Property;
- photographs of the Property, improvements, and surrounding properties;
- an income and expense analysis of the Property, including a review of rent collection performance, historical expense levels, and contributions of capital by the Borrower (or its partners, members or shareholders);
- an analysis of the Property relative to the market;
- a thorough analysis of the original underwriting file and the executed Loan Documents;
- an interview of the Key Principals or Principals of the Borrower and the Property management agent to determine the reason for the default and the likelihood and timing of a cure of the default by the Borrower;
- an assessment of the physical condition of the Property to determine whether maintenance of the Property has been deferred that would result in safety or liability concerns and the cost of necessary repairs;
- an environmental assessment, if applicable (see special requirements for environmental assessment in this Section);
a review of the Borrower’s payment history to determine compliance with the terms of the Note;

a review of the Collateral Agreements for Completion/Repair, Replacement Reserves, Achievement, and Deficit Operation and payment activity to determine whether the reserves were adequately funded and whether the Borrower attempted to maintain the Property in marketable condition;

a review of the tax and insurance deposits to ensure that payments are current;

a title insurance update or bring-down to determine whether unauthorized second mortgages or other unauthorized encumbrances exist, or unauthorized transfers have occurred;

a review of the ability of the Property management agent or of the ability of the Borrower to manage the Property, if owner-managed; and

a review of the financial capability of the Key Principals or Principals to determine if additional capital is available.

The results of the Asset Audit must be documented in a concise memorandum format for use by all those involved in the selection of a Course of Action.

712.06E Pre-Negotiation Letter

Attached as an exhibit to the Pre-Negotiation Form Letter (NOI and Loan Document Provisions) (Form 4811) or Pre-Negotiation Form Letter (Form 4812) is a checklist of items and documents to request from the Borrower that will assist the Servicer in conducting the Asset Audit. An Asset Audit may, in the Servicer’s discretion, be dispensed with if the Performance or Payment Default is reasonably determined to be technical in nature or readily susceptible of cure. For example, if the Payment Default results from an inadvertent administrative error in mailing the monthly payment, or if the monthly payment is lost in the mail, an Asset Audit would not be required if the Payment Default is cured within 60 days after the Date of Default. If the Payment Default is not cured within 60 days, the Asset Audit is due as soon as possible after the end of the 60-day period.

712.06F Special Requirements for the Environmental Assessment

1. Required Statement in Asset Audit

After reviewing the environmental assessment performed at Mortgage Loan origination and conducting a current on-site inspection to review any items noted in the original assessment done at Mortgage Loan origination, the Asset Audit must contain either:
2. Asset Audit Shows Material, Adverse Change

If the Asset Audit reflects a material, adverse change in the environmental condition of the Property, the Servicer must obtain another Phase I ESA or Phase II ESA, if applicable. Even if the Asset Audit does not reflect a material, adverse change, upon review of the Asset Audit by Fannie Mae, Fannie Mae may require the Servicer to obtain another Phase I ESA or Phase II ESA.

3. Engagement of Environmental Consultant

If another environmental assessment is required to be obtained, the Servicer must engage the environmental consultant using the Form Letter of Engagement for Environmental Consultant (Form 4815) unless the Servicer determines that the new Phase I ESA or Phase II ESA should be covered by the attorney-client privilege and kept confidential. If attorney-client privilege is desired, the Servicer must request either outside counsel or its in-house counsel to send the Engagement Letter for Environmental Consultant. Prior to engaging the environmental consultant under the attorney-client privilege, the Servicer must confirm with outside counsel whether the privilege is likely to apply and what, if any, additional steps would be required to better ensure the protection of the attorney-client privilege.

4. Cost of Environmental Assessment

The cost of the environmental assessment is considered a Delinquency Resolution Cost.

712.07 Dual Track Timeline

This timeline is hypothetical and represents the typical time frames that should be followed for all Non-Performing Mortgage Loans. Specific defaults may require action to be taken sooner or be delayed. For example, the Borrower may have filed for bankruptcy protection and, therefore, the Dual Track timeline must be implemented on an accelerated basis or delayed basis. As provided in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 710.01: Fannie Mae Retains Legal Counsel, the default resolution process remains a case-specific process and not every case will fit perfectly into this approach and timeline; however, to the extent this Chapter or the Guide requires certain actions to be taken within a
specific time period, those specific time periods are required.

<table>
<thead>
<tr>
<th>Date</th>
<th>Track 1</th>
<th>Track 2</th>
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<tbody>
<tr>
<td>March 1</td>
<td>• Borrower's Mortgage Loan payment is due. Servicer could technically send out a default notice on the 2nd; but, as a practical matter would not unless Servicer knew Borrower was not going to pay.</td>
<td>The Servicer may contact Fannie Mae Special Asset Management or its Fannie Mae Representative at any time prior to charging the Late Fee to discuss default resolution and whether the Borrower will be able to cure the default. The recommendation of an early transfer to Special Servicing may be discussed.</td>
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<td></td>
<td>• Or, Lender becomes aware of Borrower default in performance of its non-monetary obligations under the Mortgage Loan.</td>
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<tr>
<td>March 2 - 31</td>
<td>• Servicer calls Borrower to find out cause of missed payment or default and whether default will be cured by the end of the month or if default will continue into the 2nd month [April].</td>
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<td></td>
<td>• If non-monetary default requires notice to Borrower to begin cure time, Servicer sends written notice of default to Borrower.</td>
<td></td>
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<tr>
<td>March 11 (or day when Late Fee can be assessed)</td>
<td>If payment is not received, Borrower is subject to a Late Fees.</td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td>Track 1</td>
<td>Track 2</td>
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</table>
| March 11  
(or day after Late Fee can be assessed) | If no payment is received, then, under Servicer's letterhead, send out Multifamily No Payment Received Letter Fees (Optional) Assessed (Form 4807). |  |
<p>| March 11 - 30 | If full payment received after Late Fee can be assessed, under Servicer's letterhead, send out Multifamily Late Payment Letter Fees (Optional) Assessed (Form 4805). |  |
| | If partial payment received after Late Fee is incurred, under Servicer's letterhead, send out Multifamily Partial Payment Letter Fees (Optional) Assessed (Form 4806). |  |
| March 17 | Servicer reports status of defaulted Mortgage Loans via Multifamily Delinquency System and certifies that all Non-Performing Mortgage Loans have been reported. |  |
| | Before meeting with Borrower to discuss a potential workout, have Pre-Negotiation Form Letter (NOI and Loan Document Provisions) (Form 4811) or Pre-Negotiation Form Letter (Form 4812) executed by Borrower, Servicer, Fannie Mae or Lender. |  |</p>
<table>
<thead>
<tr>
<th>Date</th>
<th>Track 1</th>
<th>Track 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 18 - 31</td>
<td>If Primary Risk, the Mortgage Loan will be special serviced by Fannie Mae. If Secondary Risk, the Servicer will perform the special servicing.</td>
<td></td>
</tr>
<tr>
<td>March 31</td>
<td>If full payment is not received by end of month, and if permitted by the Mortgage Loan documents, default interest starts and is imposed from the Date of Default [March 1].</td>
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<tr>
<td>April 1</td>
<td>Borrower’s next Mortgage Loan payment is due.</td>
<td></td>
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<tr>
<td>April 1 - 30</td>
<td>Servicer continues dialogue with Borrower to assess whether default will be cured by end of month or if default will continue into the 3rd month [May].</td>
<td>Fannie Mae remains in contact with the Servicer to discuss collection efforts and whether the Borrower will be able to cure the default. The recommendation of an immediate transfer to Special Servicing may be discussed.</td>
</tr>
<tr>
<td>April 15</td>
<td>Due diligence begins for Servicing Transfer Memo/SWAT; will likely involve meeting with Borrower to obtain factual information and documents.</td>
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<tr>
<td>Date</td>
<td>Track 1</td>
<td>Track 2</td>
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<tr>
<td>April 10 - 30</td>
<td>For Primary Risk Mortgage Loans Servicer completes Servicing Transfer Memo and forwards to Fannie Mae Special Asset Management. Fannie Mae Special Asset Management and Servicer complete Asset Review.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>For Secondary Risk Mortgage Loans Servicer completes SWAT and forwards to Fannie Mae Top Loss Special Asset Management. An Asset Audit should be completed and forwarded to Fannie Mae Top Loss Special Asset Management if the Course of Action selected on the SWAT is Foreclosure.</td>
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</tr>
<tr>
<td>May 1</td>
<td>If payment is not received, Engagement of Counsel Letter is executed.</td>
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<td></td>
<td>Once legal counsel is engaged, all written correspondence with Borrower must be from legal counsel.</td>
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<tr>
<td>Date</td>
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<td>Track 2</td>
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<tr>
<td>May and June</td>
<td>For Primary Risk Mortgages, Fannie Mae will select Course of Action, unless Lender elects a Lender Purchase or Lender Workout. For Secondary Risk Mortgages, Servicer will select Course of Action in accordance with the approved SWAT.</td>
<td>Legal counsel starts process to enforce assignment of rents and begins foreclosure process.</td>
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<tr>
<td></td>
<td>Election of remedies implemented.</td>
<td>Primary Risk Mortgage Loans: Foreclosure action continues regardless of Course of Action unless Joint Workout is elected by Fannie Mae and Lender. In that case foreclosure sale would be rescheduled until workout is completed (subject to applicable law).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Secondary Risk Mortgage Loans: SWAT is approved and unless a Joint Workout is approved, the Foreclosure action continues. The Lender purchases the Secondary Risk Mortgage Loan from Fannie Mae either prior to or immediately following the foreclosure sale.</td>
</tr>
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</table>

**Section 713**  
Loss Sharing and the Appraisal Process in connection with a Foreclosure Event

**713.01**  
General

**713.01A**  
Appraisal Required; Defined Terms

An Appraisal of the Property is required in connection with any
Foreclosure Event for a Mortgage Loan that is subject to Loss Sharing. Capitalized terms in this Section not otherwise defined in the Glossary, shall have the meanings ascribed to them in the Loss Sharing Addendum. In the event of a conflict between the Loss Sharing Addendum and the Guide, the Loss Sharing Addendum will control.

713.01B Compliance with Loss Sharing Addendum

Each Appraisal must comply with the requirements of the Guide and the Loss Sharing Addendum. As used in this Section with regard to any required Appraisal, a "manifest error of fact" refers solely to a factual error or omission by the appraiser (such as a math error or an inaccurate reference to the county or other jurisdiction of the Property location), and not to any disagreement with the appraiser’s discretionary decisions or determinations (such as the appraiser’s use of a particular capitalization rate, comparable properties, or market adjustments).

713.01C Approved Appraisers

Each appraiser engaged to prepare an Appraisal pursuant to this Section must be approved by Fannie Mae. Periodically, the Lender must submit the names and, if requested by Fannie Mae, qualifications of its preferred appraisers to Fannie Mae for approval. Fannie Mae and the Lender each will maintain a current list of all approved appraisers who may provide an Appraisal under this Section.

713.01D Appraisal Requirements

The following applies to any Appraisal obtained pursuant to this Section.

- Each Appraisal and appraiser must comply with Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation.
- The Lender must provide the Appraiser Engagement Instruction Form (Form 4825) when engaging an appraiser to perform an initial Appraisal.
- Fannie Mae will use Engagement Letter for Appraiser (Form 4823 or Form 4826) or Engagement Letter for Review Appraiser (Form 4824) to engage an appraiser performing an initial Appraisal or a subsequent Appraisal (as applicable).
- All communication with a jointly engaged appraiser regarding the valuation of the Property must include joint participation by members of the appraisal review groups from both Fannie Mae and the Lender.
- If the Property has unused Low-Income Housing Tax Credits or
other tax credits that transferred to Fannie Mae as a result of a Foreclosure Event, the Asset Value as of the Asset Valuation Date will be the greater of (i) the value of the Property “as restricted”, plus the value of the unused tax credits, or (ii) the “as-is” market value of the Property. Fannie Mae and the Lender will engage either the appraiser or another third party to value such unused tax credits.

- Both Fannie Mae and the Lender must use an independent appraisal review group to allow appropriate communication with the appraisers, and to ensure consistent valuation practices and quality control. The appraisal review group may be either:
  - employees of Fannie Mae or the Lender, such as multifamily mortgage underwriters, who are not required to hold state appraisal licenses or certifications, but who are independent from their employers’ asset management and special servicing functions; or
  - an independent third-party appraisal firm.

- Fannie Mae and the Lender will provide to each engaged appraiser the most recent of the Property’s engineering, environmental, and Property Condition Assessment reports; each of which will be obtained jointly using the standard Engagement Letter for Engineering Consultant (Form 4821) or Engagement Letter for Environmental Consultant (Form 4822).

- If the Foreclosure Event is delayed, or if the Asset Valuation Date is not within 90 days after the date of the Appraisal that determines the Asset Value for Loss Sharing, either Fannie Mae or the Lender may require that the Appraisal be updated to reflect the Property’s value as of the Asset Valuation Date. Any Property Condition Assessment or Phase I Environmental Site Assessment used for the first Appraisal may be updated if either Fannie Mae or the Lender requires the Appraisal to be updated.

Following the receipt by the Lender of the Appraisal Notice referred to in this Section, if the Lender fails to cause an Appraisal to be conducted in accordance with the applicable timeline for the Single Appraisal Approach or the Dual Appraisal Approach, the Property’s Appraised Value will be determined exclusively by an appraiser selected by Fannie Mae, and the Lender will be deemed to have waived any right to challenge such valuation. Updates required due to material changes in market or Property conditions, including, but not limited to, changes in access and control of the Property, will be addressed on a case by case basis.

Nothing shall prohibit Fannie Mae from ordering its own Appraisal, Property Condition Assessment, or Phase I Environmental Site Assessment
in conjunction with its activities as the Special Servicer for the Mortgage Loan (e.g., for litigation contesting the Property’s Appraised Value, to determine foreclosure bidding strategy, in connection with a Borrower’s bankruptcy action, or other similar needs). However, any Appraisal, Property Condition Assessment, or Phase I Environmental Site Assessment obtained to determine the Asset Value must be obtained in accordance with this Section.

713.01E Appraisal Notice and Election of Appraisal Methodology

If an Appraisal is required to determine the Property’s Asset Value for any reason, including the commencement of the process described in Part V, Chapter 7: Non-Performing Mortgage Loans in connection with a Foreclosure Event, Fannie Mae will notify the Lender (the “Appraisal Notice”).

Within 4 Business Days after receipt of the Appraisal Notice from Fannie Mae, the Lender must elect, by written notice (e.g., e-mail) to its Fannie Mae Representative in Special Asset Management, to use either the Single Appraisal Approach or the Dual Appraisal Approach. Once made, the Lender’s election will be binding on the Lender and Fannie Mae with respect to that Property and Mortgage Loan, and may not be changed unless mutually agreed upon in writing.

If the Lender fails to elect an Appraisal approach within the allotted time period, the Single Appraisal Approach will be used. However, if the Lender elects the Single Appraisal Approach, and Fannie Mae and the Lender are unable to jointly select and engage an appraiser as required by this Section, the Dual Appraisal Approach will be used.

713.02 Single Appraisal Approach

This Section outlines the recommended timeline and process to obtain an Appraisal using the Single Appraisal Approach, as further described in the Loss Sharing Addendum. Several variables may alter this timeline; however, the objective is to obtain a final Appraised Value as of the Asset Valuation Date.

713.02A Single Appraisal Approach Timeline

1. Fannie Mae will order any required Property Condition Assessment or Phase I Environmental Site Assessment within 4 Business Days after the Appraisal Notice, using the Engagement Letter for Engineering Consultant (Form 4821) or the Engagement Letter for Environmental Consultant (Form 4822).

2. The Lender will submit to Fannie Mae a short list of 2 or 3 preferred appraisers from the Lender’s list of approved
3. Fannie Mae will select an appraiser from the Lender’s short list within 8 Business Days after its Appraisal Notice, and the appraiser will be engaged jointly by Fannie Mae and the Lender pursuant to the standard Engagement Letter for Appraiser (Joint Engagement) (Form 4823). Fannie Mae and the Lender will provide the appraiser with all appropriate information reasonably required to complete the Appraisal in a timely fashion.

4. The appraiser should be instructed to deliver the draft Appraisal within 20 Business Days after engagement.

713.02B Draft Appraisal Review

1. Fannie Mae and the Lender will each complete a review of the draft Appraisal within 10 Business Days after receipt. A joint conference call may be held with the appraiser, if requested by either Fannie Mae or the Lender. If either Fannie Mae or the Lender determines it is necessary, review comments and pertinent factual information will be provided to the appraiser and the other party. The joint conversation and information delivery are expected to occur within 15 Business Days after receipt of the draft Appraisal.

2. The appraiser should be instructed to deliver the revised draft Appraisal within 5 Business Days of receipt of comments and information.

3. Fannie Mae and the Lender will each complete a review of the revised draft Appraisal within 5 Business Days after receipt.

713.02C Acceptable Draft Appraisal

If the draft Appraisal is acceptable to both Fannie Mae and the Lender, the draft Appraisal will be finalized and the final Appraised Value will be the Asset Value. Prior to issuing the final Appraisal, the appraiser may address any factual errors or other issues that both parties agree should not materially impact the Appraised Value. The appraiser will be expected to deliver the final Appraisal within 5 Business Days of the request for the final Appraisal.

713.02D Non-Acceptable Draft Approach

1. If either Fannie Mae or the Lender does not accept the draft Appraisal and believes that discussions with the appraiser would not result in an acceptable Appraisal, notice will be given
to the other party that the Appraisal is unacceptable. Within 8 Business Days after either party receives such notice:

- a second appraiser will be selected by Fannie Mae from the Lender’s list of approved appraisers;
- the second appraiser will be engaged jointly by Fannie Mae and the Lender pursuant to the standard Engagement Letter For Review Appraiser (Joint Retention) (Form 4824); and
- the first Appraisal, written comments by Fannie Mae and the Lender (if any), and pertinent Property information will be shared with the second appraiser.

2. The second appraiser will examine the first Appraisal, and then initiate a joint call with representatives of Fannie Mae and the Lender within 10 Business Days after delivery of the first Appraisal and supplemental information.

3. The second appraiser will develop an independent opinion of the Asset Value as of the Asset Valuation Date, and prepare an Appraisal consistent with the Engagement Letter for Review Appraiser (Joint Retention) (Form 4824). The second appraiser should be instructed to deliver the Appraisal within 15 Business Days after the joint conference call.

4. The second Appraisal will be accepted, and the Appraised Value will be the Asset Value for Loss Sharing, without further review or consent by either Fannie Mae or the Lender, unless there is a manifest error of fact in the second Appraisal.

5. If either Fannie Mae or the Lender determines that the second appraiser has made a manifest error of fact, the correct factual information will be provided to the appraiser and the other party within 10 Business Days after receiving the second Appraisal.

6. The second appraiser will be expected to deliver a corrected final Appraisal within 5 Business Days after being advised of a manifest error of fact in the second Appraisal.

7. The corrected final Appraisal will be accepted, and the final Appraised Value will be the Asset Value for Loss Sharing, without further review or consent by either Fannie Mae or the Lender.

**713.03 Dual Appraisal Approach**

This Section outlines the recommended timeline and process to obtain an Appraisal using the Dual Appraisal Approach, as further described in the Loss Sharing Addendum. Several variables may alter this timeline;
however, the objective is to obtain a final Appraised Value as of the Asset Valuation Date.

713.03A Dual Appraisal Approach Timeline

1. Fannie Mae will order any required Property Condition Assessment or Phase I Environmental Site Assessment within 4 Business Days after the Appraisal Notice, using the Engagement Letter for Engineering Consultant (Form 4821) or the Engagement Letter for Environmental Consultant (Form 4822).

2. The Lender and Fannie Mae will each select and engage an appraiser from their individual lists of approved appraisers within 8 Business Days after the Appraisal Notice. The Lender will engage its appraiser pursuant to the standard Appraiser Engagement Instruction Form (Form 4825), and Fannie Mae will engage its appraiser pursuant to the standard Appraiser Engagement Letter for Appraiser (Fannie Mae Retention) (Form 4826).

3. Each appraiser should be instructed to deliver a final Appraisal within 35 Business Days after both appraisers have been engaged. Fannie Mae and the Lender will share copies of their respective final Appraisals with each other.

713.03B Average of Appraised Values

If the 2 Appraised Values differ by 10% or less, the average of the 2 Appraised Values will be the Asset Value for Loss Sharing.

713.03C Third Appraisal

1. If the 2 Appraised Values differ by more than 10%, within 4 Business Days after receipt of the final Appraisals:
   - a third appraiser will be selected by Fannie Mae from the Lender’s list of approved appraisers;
   - the third appraiser will be engaged jointly by Fannie Mae and the Lender pursuant to the standard Engagement Letter for Review Appraiser (Joint Retention) (Form 4824); and
   - the first 2 Appraisals, written comments by Fannie Mae and the Lender (if any), and pertinent Property information will be shared with the third appraiser.

2. The third appraiser will initiate a joint conference call with
representatives from Fannie Mae and the Lender to discuss the first 2 Appraisals within 10 Business Days after delivery of the first 2 Appraisals and Fannie Mae’s and the Lender’s comments.

3. The third appraiser will develop an independent opinion of the Asset Value as of the Asset Valuation Date, and prepare an Appraisal consistent with the Engagement Letter for Review Appraiser (Joint Retention) (Form 4824). The third appraiser should be instructed to deliver the Appraisal within 15 Business Days after the joint conference call.

4. The third Appraisal will be accepted and the Appraised Value will be the Asset Value for Loss Sharing, without further review or consent by either Fannie Mae or the Lender, unless there is a manifest error of fact in the third Appraisal.

5. If either Fannie Mae or the Lender determines that the third appraiser has made a manifest error of fact in its Appraisal, the correct factual information will be provided to the third appraiser and the other party within 10 Business Days after receiving the third Appraisal.

6. The third appraiser will be expected to deliver a corrected final Appraisal within 5 Business Days after being advised of a manifest error of fact.

7. The corrected final Appraisal will be accepted, and the final Appraised Value will be the Asset Value for Loss Sharing, without further review or consent by either Fannie Mae or the Lender.
Chapter 8  In Place Loans
Section 801  Eligibility

Requirements

A Portfolio Mortgage Loan is eligible to be refinanced with an In Place Loan if the Property:

- operations were stable or trended positively during the 12 months before refinancing; and
- complies with the Guide other than meeting the Tier 2 underwriting requirements.

Guidance

To refinance a Portfolio Mortgage Loan with an In Place Loan:

<table>
<thead>
<tr>
<th>Topic</th>
<th>Should...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio Mortgage Loan</td>
<td>Have a timely payment history during the 12 months before refinance.</td>
</tr>
<tr>
<td>Borrower</td>
<td>• Have a satisfactory relationship with Fannie Mae.</td>
</tr>
<tr>
<td></td>
<td>• Not be able to refinance the Portfolio Mortgage Loan on commercially</td>
</tr>
<tr>
<td></td>
<td>viable terms outside Fannie Mae.</td>
</tr>
<tr>
<td></td>
<td>• Not have had any unauthorized transfers or changes of ownership interest.</td>
</tr>
<tr>
<td>Property</td>
<td>• Have a</td>
</tr>
<tr>
<td></td>
<td>- most recent Property condition rating of 1, 2, or 3 per Part II,</td>
</tr>
<tr>
<td></td>
<td>Chapter 4: Inspections and Reserves, Section 401: Site Inspection, or</td>
</tr>
<tr>
<td></td>
<td>- special exception from Fannie Mae.</td>
</tr>
<tr>
<td></td>
<td>• Only require repairs that can reasonably be made with refinancing</td>
</tr>
<tr>
<td></td>
<td>proceeds.</td>
</tr>
<tr>
<td></td>
<td>• Have no unauthorized Liens.</td>
</tr>
<tr>
<td>Topic</td>
<td>Should...</td>
</tr>
<tr>
<td>-------</td>
<td>-----------</td>
</tr>
</tbody>
</table>
| You   | • Have loss sharing on the Portfolio Mortgage Loan.  
       | • Document in the Transaction Approval Memo that refinancing will  
       |   - reduce the Portfolio Mortgage Loan's credit risk, and  
       |   - not merely delay a foreclosure that may increase losses. |

Fannie Mae may also require:

- Property improvements to increase cash flow;
- Property management changes;
- increased Replacement Reserves; or
- other risk-mitigating terms.

**Section 802**

Representations

**☑ Requirements**

Unless modified by this Chapter, you must provide the same selling and servicing representations and warranties required for a newly originated Mortgage Loan.
Glossary

A

Achievement Agreement  Agreement requiring the Borrower to provide a letter of credit, cash, or guaranty as additional collateral to support the Mortgage Loan amount and specifying the terms for releasing the collateral.

Synonyms
• Achievement Agreements

Achievement Letter of Credit  Letter of Credit that is released as collateral when a certain event occurs or a requirement is met (e.g., construction completion, or minimum occupancy or EGI level reached).

Synonyms
• Achievement Letters of Credit
• Achievement LOC
• Achievement LOCs

Action Plan  Servicer’s report to Fannie Mae including detailed analysis of Mortgage Loan and Property issues, Servicer’s strategy for resolving issues, and related actions and outcomes.

Synonyms
• Action Plans

Actual Losses  Net dollar amount of the loss on a Mortgage Loan as calculated on the Multifamily Loss Notification Form and approved by Fannie Mae.

Administrator  Third-party compliance monitoring company.
Affordable Regulatory Agreement

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

Allocable Facility Amount

For a Credit Facility, the amount of debt allocated to a given Property, used in calculating tests for collateral activity such as releases, substitutions, and additions.

Synonyms
• Allocable Facility Amounts

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

Appraisal Notice

As defined in the Loss Sharing Addendum.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraised Value</td>
<td>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.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Appraised Values</td>
</tr>
<tr>
<td>Asset Class</td>
<td>Type of Multifamily Property securing a Mortgage Loan (e.g., conventional, Seniors Housing, Manufactured Housing Community, Cooperative, etc.).</td>
</tr>
<tr>
<td>Asset Valuation Date</td>
<td>As defined in the Loss Sharing Addendum.</td>
</tr>
<tr>
<td>Asset Value</td>
<td>As defined in the Loss Sharing Addendum.</td>
</tr>
<tr>
<td>Assisted Living</td>
<td>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.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• AL</td>
</tr>
<tr>
<td>Automated Drafting System</td>
<td>System used for processing remittances to Fannie Mae.</td>
</tr>
<tr>
<td>B Ballon Mortgage Loan</td>
<td>Mortgage Loan with periodic installments of principal and interest that do not fully amortize the Mortgage Loan, with the balance of the Mortgage Loan due in a lump sum on a specified date, usually the Maturity Date.</td>
</tr>
<tr>
<td>Bond Trustee</td>
<td>Trustee for a Credit Enhancement Instrument.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Bond Trustee's</td>
</tr>
<tr>
<td><strong>Bonds</strong></td>
<td>Tax-exempt or taxable multifamily revenue bonds, or other tax-exempt or taxable bonds, issued to finance 1 or more Credit Enhancement Mortgage Loan Properties.</td>
</tr>
<tr>
<td>-----------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Bond</td>
</tr>
<tr>
<td><strong>Borrower</strong></td>
<td>Person who is the obligor per the Note.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Borrowers • Borrower's</td>
</tr>
<tr>
<td><strong>Bulk Delivery</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Bulk Deliveries</td>
</tr>
<tr>
<td><strong>Bulk Delivery Agreement</strong></td>
<td>Agreement evidencing the terms and conditions of a Bulk Delivery.</td>
</tr>
<tr>
<td><strong>Business Day</strong></td>
<td>Any day other than a • Saturday, • Sunday, • day when Fannie Mae is closed, • day when the Federal Reserve Bank of New York is closed, or • for any MBS and required remittance withdrawal, a day when the Federal Reserve Bank is closed in the district where any of the MBS funds are held.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Business Days</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Cash Mortgage Loan</td>
<td>Mortgage Loan purchased by Fannie Mae in exchange for cash.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Cash Mortgage Loans</td>
</tr>
<tr>
<td>Cash Remittance System</td>
<td>Multifamily web application allowing a Lender to enter the amounts to be drafted from its bank accounts via ACH for monthly remittances due to Fannie Mae, or any such successor system.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Catastrophic Events</td>
</tr>
<tr>
<td>Catastrophic Event</td>
<td>Natural or man-made hazard resulting in an event of substantial extent causing significant physical damage or destruction, loss of life, or drastic change to the natural environment such as earthquake, flood, terrorist attack and windstorm.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Catastrophic Events</td>
</tr>
<tr>
<td>CESIR</td>
<td>Credit Enhancement Servicing and Investor Reporting System</td>
</tr>
<tr>
<td>Choice Refinance Loan</td>
<td>Mortgage Loan refinancing a Portfolio Mortgage Loan using streamlined underwriting per Part III, Chapter 18: Choice Refinance Loans.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Choice Refinance Loans</td>
</tr>
</tbody>
</table>
Clearing Account  
Lender account at an Eligible Depository used either for  
• receiving funds for various loans and for the benefit of multiple investors, and from which segregated funds are transferred to specific Custodial Accounts held solely for the benefit of Fannie Mae, or  
• disbursing funds after transfer from a Fannie Mae Custodial Account.

**Synonyms**  
• Clearing Accounts

Collateral  
Property, Personal Property, or other property securing a Mortgage Loan.

Collateral Agreement  
Agreement under which collateral (other than the Property) may be pledged, transferred, or otherwise provided to secure the Borrower's obligations under a Mortgage Loan.

**Synonyms**  
• Collateral Agreements

Collateral Agreement Custodial Accounts  
Custodial account established by the Servicer for depositing funds received from the Borrower for Collateral Agreements.

**Synonyms**  
• Collateral Agreement Custodial Account

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
| Completion/Repair Agreement | The 4000 series Completion/Repair Security Agreement (Form 4505), or other agreement approved by Fannie Mae, that evidences the: 
• Borrower’s agreement to perform Completion/Repairs and other identified capital improvements; 
• terms for funding the repairs, maintenance, or capital items; and 
• disbursement of Completion/Repair Escrow funds.  

**Synonyms**  
• Completion/Repair Agreements |
| Completion/Repair Escrow | Custodial Account established by the Lender and initially funded by an escrow deposit from the Borrower on the Mortgage Loan Origination Date to complete Completion/Repairs or other capital improvements at the Property. |
| Completion/Repair Schedule | The Required Repair Schedule to the Multifamily Loan Agreement (Form 6001 series) and the applicable parts of the Multifamily Loan Agreement (or other agreement approved by Fannie Mae) that evidence the: 
• Borrower’s agreement to perform Completion/Repairs and other identified capital improvements; 
• terms for funding the repairs, maintenance, or capital items; and 
• disbursement of Completion/Repair Escrow funds.  

**Synonyms**  
• Completion/Repair Schedules |
| Completion/Repairs | Immediate Repairs identified by the Property Condition Assessment and required by the Lender to be included in the Completion/Repair Agreement (or a Certificate of Borrower, if applicable).  

**Synonyms**  
• Completion/Repair |
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
<th>Synonyms</th>
</tr>
</thead>
</table>
| 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). | • Controlling  
• Controlled  
• Controls                                                                                       |
| 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.                                      | • Cooperative Maintenance Fees                                                                    |
| Cooperative Property             | Multifamily residential property owned by a Cooperative Organization.                                                                                                                                      | • Coop  
• Cooperative                                                                                   |
<p>| Course of Action                 | For Non-Performing Mortgage Loans, loss mitigation activities per per Part V, Chapter 7: Non-Performing Mortgage Loans.                                                                                      | • Courses of Action                                                                               |
| Credit Enhancement Fee           | Fee due to Fannie Mae for a Credit Enhancement Instrument.                                                                                                                                                 |                                                                                                    |</p>
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Enhancement Instrument</td>
<td>Agreement between Fannie Mae and a Bond Trustee where Fannie Mae provides credit enhancement of a Credit Enhancement Mortgage Loan, Bonds issued to finance a Credit Enhancement Mortgage Loan, or an Interest Rate Hedge Agreement; and if applicable, a Bond liquidity facility.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Credit Enhancement Instruments</td>
</tr>
<tr>
<td>Credit Enhancement Mortgage Loan</td>
<td>Mortgage Loan financed by a Bond issuance where Fannie Mae provides credit enhancement by • a Credit Enhancement Instrument, or • an MBS for Bonds.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Credit Enhancement Mortgage Loans</td>
</tr>
<tr>
<td>Credit Facility</td>
<td>Structured Transaction that • is governed by a Master Credit Facility Agreement, and • includes cross-collateralized and cross-defaulted Mortgage Loans and Properties.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Credit Facilities</td>
</tr>
<tr>
<td>Custodial Account</td>
<td>Accounts established by the Servicer for depositing P&amp;I payments, T&amp;I funds, Collateral Agreement deposits, and other similar funds.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Custodial Accounts</td>
</tr>
<tr>
<td>Date of Default</td>
<td>Date of the initial Payment Default or Performance Default, per Part V, Chapter 7: Non-Performing Mortgage Loans, Section 703: Mortgage Loan Defaults.</td>
</tr>
</tbody>
</table>
Defeasance  Transaction where a Property is released from the lien of the Security Instrument and the Lender receives a valid and perfected lien and security interest in substitute collateral acceptable to Fannie Mae and the cash flows thereunder.

Delegated Transaction Form  Multifamily Asset Management Delegated Transaction Form (Form 4636 series) used to determine whether certain asset management requests from a Borrower are delegated to the Servicer.

**Synonyms**
- Delegated Transaction Forms

Delinquency Advance  For Primary Risk Mortgage Loans and Secondary Risk Mortgage Loans, an amount advanced by a primary servicer in respect of regularly scheduled monthly interest or principal due on 1 or more Mortgage Loans, to the extent required under its Lender Contract. For Secondary Risk Mortgage Loans only, in addition to the above, any amount advanced by a primary servicer in respect of all accrued but unpaid interest and principal due on 1 or more Mortgage Loans at the applicable Maturity Date of each relevant Mortgage Loan.

**Synonyms**
- Delinquency Advances

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
Direct Pay  Credit enhancement under which Fannie Mae makes principal and interest payments directly to the Bond Trustee (for payment to bondholders) regardless of whether the Borrower has reimbursed Fannie Mae for such payments.

Disclosure Documents  Documents for an Investor for a particular Securitized Mortgage Loan, which may include the MBS Trust Agreement, Prospectus, and any related documents.

Drafting Account  Custodial Account established by the Lender for the benefit of Fannie Mae and for which Fannie Mae has authority to transfer funds.

Synonyms
• Drafting Accounts

DUS  Delegated Underwriting and Servicing

DUS Plus  Mezzanine Financing option provided by the Fannie Mae-designated mezzanine Lender.

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

Synonyms
• EGI
### Efficiency Measures

Energy- and water-efficiency measures that the Borrower agrees to implement per the Multifamily Loan Agreement to qualify as a Green Rewards Mortgage Loan, and which project a reduction in the Property's annual energy or water consumption.

**Synonyms**
- Efficiency Measure

### Environmental Site Assessment

Report (either a Phase I ESA or a Phase II ESA) identifying whether a Property is subject to Recognized Environmental Conditions or Business Environmental Risks.

**Synonyms**
- ESA

---

**F**

**Fannie Mae Representative**

Fannie Mae personnel who assist you with various business matters (e.g., Fannie Mae Deal Team, pricing, delivery, servicing, asset management, etc.).

**FDIC**

Federal Deposit Insurance Corporation

**FHA**

Federal Housing Administration
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

Forward Commitment

Commitment to purchase a permanent Mortgage Loan for a to-be constructed or rehabilitated Property.

Synonyms
• Forward Commitment's
• Forward Commitments
<table>
<thead>
<tr>
<th><strong>Green Rewards Mortgage Loan</strong></th>
<th>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.</th>
</tr>
</thead>
</table>
| **Synonyms**                | • Green Rewards Mortgage Loans  
• Green Rewards                                                                                                                                  |
| **Green Rewards Verification** | Green Rewards Mortgage Loan Property inspection ensuring all Efficiency Measures were correctly installed.                                                                                     |
| **Gross Note Rate**         | Interest rate stated in the Loan Documents.                                                                                                                                                  |
| **Gross Potential Rent**    | On an annual basis or any specified period, the total actual and potential rent for a Property (per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products and features in Part III). |
| **Synonyms**                | • GPR                                                                                                                                |
| **Ground Lease**            | Contract for the rental of land, usually on a long term basis.                                                                                                                              |
| **Guarantor**               | Key Principal or other Person executing a Payment Guaranty, Non-Recourse Guaranty, or any other guaranty related to the Mortgage Loan.                                                           |
| **Synonyms**                | • Guarantors                                                                                                                         |
| **Guaranty**                | Payment Guaranty, Non-Recourse Guaranty, or other guaranty by a Guarantor for the Mortgage Loan.                                                                                           |
Guaranty Fee
Fee retained by Fannie Mae for credit enhancing a Mortgage Loan or assuming credit risk on a Mortgage Loan, and which may be expressed as a percentage.

Synonyms
• Guaranty Fees

Guide
Multifamily Selling and Servicing Guide that:
• controls all Lender and Servicer requirements unless a Lender Contract specifies otherwise; and
• includes any exhibits, appendices, or other referenced forms, as updated, amended, restated, modified, or supplemented.

Synonyms
• DUS Guide

H

HAP
HUD project-based Section 8 rental subsidy in the form of a Housing Assistance Payment contract.

Synonyms
• Housing Assistance Payment

Housing Choice Voucher
Any rental assistance payment or voucher to an eligible tenant under Section 8 of the United States Housing Act of 1938, 42 U.S.C. § 1437f, as amended.

Synonyms
• Housing Choice Vouchers

HUD
U.S. Department of Housing and Urban Development
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improvements</td>
<td>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).</td>
</tr>
<tr>
<td>In Place Loan</td>
<td>Mortgage Loan refinancing a Portfolio Mortgage Loan that does not meet Tier 2 underwriting requirements.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• In Place Loans</td>
</tr>
<tr>
<td>Indenture</td>
<td>Bond issuer trust indenture or resolution listing Bond terms.</td>
</tr>
<tr>
<td>Independent Living</td>
<td>Seniors Housing providing limited programs of assistance for domestic activities (e.g. meals, housekeeping, activities, transportation, etc.), and typically resembles market rate units.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• IL</td>
</tr>
<tr>
<td>Index</td>
<td>Basis for determining the Gross Note Rate of an ARM Loan, including any required alternative index that may be determined necessary by Fannie Mae because the Index is no longer widely accepted or has been replaced as the index for similar financial instruments.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Interest Rate Cap</strong></td>
<td>Interest rate agreement between the Borrower and a provider for which the Borrower receives payments at the end of each period when the interest rate exceeds the Cap Strike Rate. The Interest Rate Cap provides a ceiling (or cap) on the Borrower’s Mortgage Loan interest payments.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Interest Rate Caps&lt;br&gt;• Interest Rate Hedge&lt;br&gt;• Interest Rate Hedges&lt;br&gt;• Interest Rate Swap</td>
</tr>
<tr>
<td><strong>Interest Rate Cap Agreement</strong></td>
<td>Contract setting forth the terms and conditions of an Interest Rate Cap, Hedge, or Swap.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Interest Rate Hedge Agreement&lt;br&gt;• Interest Rate Swap Agreement</td>
</tr>
<tr>
<td><strong>Investor</strong></td>
<td>MBS Investor for an MBS Mortgage Loan, or Fannie Mae for a Cash Mortgage Loan.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Investors</td>
</tr>
<tr>
<td><strong>Issue Date</strong></td>
<td>First day of the month a Security is issued.</td>
</tr>
<tr>
<td><strong>Issue Date Principal Balance</strong></td>
<td>For any Securitized Mortgage Loan, the UPB of the Note after crediting:&lt;br&gt;• the principal portion of any scheduled monthly installment due on or before the Security Issue Date, whether or not collected; and&lt;br&gt;• any unscheduled principal payment received on or before the Security Issue Date.</td>
</tr>
</tbody>
</table>
Issuer

Entity that:
• issues Bonds for a Credit Enhancement Mortgage Loan;
• packages mortgages for sale as a Security for an MBS; or
• issues a Letter of Credit.

Synonyms
• Issuers

K

Key Principal

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

Synonyms
• Key Principals

L

Last Paid Installment

Due date of the last payment received.

Synonyms
• LPI

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.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
<th>Synonyms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lender</td>
<td>Person approved by Fannie Mae to sell or service Mortgage Loans.</td>
<td>Synonyms</td>
</tr>
<tr>
<td>Lender Contract</td>
<td>Program Documents per the Multifamily Selling and Servicing Agreement.</td>
<td>Synonyms</td>
</tr>
<tr>
<td>Lender Risk Management</td>
<td>Team that can be contacted at <a href="mailto:lender_risk_management@fanniemae.com">lender_risk_management@fanniemae.com</a>.</td>
<td></td>
</tr>
<tr>
<td>Letter of Credit</td>
<td>Letter of Credit approved by Fannie Mae per Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit.</td>
<td>Synonyms</td>
</tr>
<tr>
<td>LIBOR</td>
<td>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.</td>
<td></td>
</tr>
<tr>
<td>Lien</td>
<td>Lien, mortgage, bond interest, pledge, security interest, charge, or encumbrance of any kind.</td>
<td>Synonyms</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th><strong>Limited Power of Attorney</strong></th>
<th>Legal document authorizing a Servicer to execute certain Loan Documents related to the asset management of a Mortgage Loan as attorney-in-fact on behalf of Fannie Mae.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loan Documents</strong></td>
<td>All documents evidencing, securing, or guaranteeing the debt obligation executed for a Mortgage Loan and approved by Fannie Mae.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Loan Document • Mortgage Loan Document • Mortgage Loan Documents</td>
</tr>
<tr>
<td><strong>Loan Number</strong></td>
<td>10-digit number assigned by Fannie Mae to each Mortgage Loan.</td>
</tr>
<tr>
<td><strong>Loan Year</strong></td>
<td>Period beginning on the date of the Note and ending on the last day of the month that is 12 full months after the date of the Note, and each successive 12-month period thereafter.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Loan Years</td>
</tr>
<tr>
<td><strong>Low-Income Housing Tax Credit</strong></td>
<td>Federal program offering tax credits to owners of eligible properties that contain low-income occupants and rent restrictions.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Low-Income Housing Tax Credits • Low Income Housing Tax Credits • LIHTC • LIHTCs</td>
</tr>
</tbody>
</table>

M
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>MAMP</td>
<td>Multifamily Asset Management Portal used to submit Property inspections, operating statements, and requested modifications; asset management reports; and data corrections related to loan or property level attributes.</td>
</tr>
</tbody>
</table>
| Synonyms                    | • Multifamily Asset Management Portal  
• MAMP's                                                                                                                                                                                                 |
| Master Credit Facility      | Agreement evidencing the terms and conditions of a Credit Facility.                                                                                                                                       |
| Agreement                   |                                                                                                                                                                                                           |
| 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                                                                                                                                                                                            |
| Maturity Management Top Loss| Team that can be contacted at TopLoss_SAM@fanniemae.com.                                                                                                                                                    |
| MBA                         | Mortgage Bankers Association                                                                                                                                                                               |
MBS: Mortgage-Backed Security

MBS for Bonds: Fannie Mae MBS:
- issued to credit enhance tax-exempt Bonds; or
- exchanged for Bonds redeemed at MBS issuance.

Synonyms
- MBS Exchange
- MTEB
- MTEM

MBS Investor: For MBS Mortgage Loans, either a Third Party MBS Investor for Lender-Arranged Sales, or the Multifamily Trading Desk.

MBS Mortgage Loan: Mortgage Loan purchased by Fannie Mae in exchange for an issued MBS backed by the Mortgage Loan.

Synonyms
- MBS Mortgage Loans

MBS Pool: MBS Security backed by MBS Mortgage Loans.

Synonyms
- MBS Pools
- MBS Pool's

Minimum 1% Prepayment Premium: For a prepayment, an amount equal to 1% of the UPB.

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

MSFMS
Multifamily Structured Facilities Management System performing collateral delivery and securitization functions for Structured Transactions.

Multifamily Affordable Housing Property
Property encumbered by a regulatory agreement, land use restriction agreement, extended use agreement, or similar restriction that limits rents that can be charged to tenants, or imposes income limits on tenants.

**Synonyms**
- MAH
- Multifamily Affordable Housing
- MAH Property

Multifamily Asset Management
Team that can be contacted at drawer_am@fanniemae.com.

Multifamily Business Operations
Team that can be contacted at multifamily_bizops@fanniemae.com.
Multifamily Certification and Custody: Team responsible for taking custody of and certifying Mortgage Loans that can be contacted at
• multifamcert_team@fanniemae.com,
• (800) 940-4646, or
• for submissions:
  Fannie Mae (Multifamily) Certification and Custody
  21240 Ridgetop Circle
  Suite 125-130
  Sterling, VA  20166.

Synonyms
• DDF
• Document Delivery Facility
• Document Delivery System

Multifamily Inspections: Team that can be contacted at
mf_inspections@fanniemae.com.

Multifamily Insurance: Team that can be contacted at
drawer_insurance@fanniemae.com.

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.

Synonyms
• Multifamily Loan Agreements

Multifamily Loss Mitigation: Team that can be contacted at
lm_watch@fanniemae.com.

Synonyms
• Multifamily Watchlist

Multifamily Master Servicing: Team that can be contacted at
multifamily_ops_servicing@fanniemae.com.
Multifamily Maturity Management Team that can be contacted at Maturity_Management_Group@fanniemae.com.

Multifamily Operating Statements Team that can be contacted at mf_operatingstatements@fanniemae.com.

Multifamily Seniors Housing Property Asset Management Team that can be contacted at seniors_am@fanniemae.com.

Multifamily Structured Acquisitions Team that can be contacted at mf_spot@fanniemae.com.

Multifamily Structured Asset Management Team that can be contacted at structured_am@fanniemae.com.

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

**Synonyms**
- NFIP

NCUSIF National Credit Union Share Insurance Fund administered by the National Credit Union Administration.

Net Cash Flow On an annual basis or any specified period, the total Net Operating Income, minus the full amount underwritten for Replacement Reserve expense, regardless of whether deposits will be made (per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products and features in Part III).

**Synonyms**
- NCF
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
<th>Synonyms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Performing Mortgage Loan</td>
<td>Mortgage Loan that is subject to an uncured default.</td>
<td>• Non-Performing Mortgage Loans • Non-Performing</td>
</tr>
<tr>
<td>Non-Recourse Guaranty</td>
<td>Guaranty executed by a Key Principal on Form 4501 series or Form 6015 series, or approved by Fannie Mae.</td>
<td>• Guaranty of Non-Recourse Obligations</td>
</tr>
<tr>
<td>Note</td>
<td>Instrument evidencing a Mortgage Loan obligation, including Form 6010 series, any other note approved by Fannie Mae, and all applicable addenda, schedules, and exhibits.</td>
<td>• Notes</td>
</tr>
<tr>
<td>O</td>
<td>U.S. Treasury Department, Office of Foreign Assets Control.</td>
<td></td>
</tr>
<tr>
<td>P</td>
<td>Principal and interest</td>
<td></td>
</tr>
<tr>
<td>P&amp;I Custodial Account</td>
<td>Custodial Account for principal and interest deposits.</td>
<td>• P&amp;I Custodial Accounts</td>
</tr>
<tr>
<td>Partial Efficiency Measures</td>
<td>Efficiency Measures installed in a subset of units (e.g., if new ENERGY STAR© refrigerators are only required in 40 of the Property's 100 units).</td>
<td>• Partial Efficiency Measure</td>
</tr>
</tbody>
</table>
Pass-Through Rate  Mortgage Loan Gross Note Rate minus the Guaranty Fee, minus the Servicing Fee.

Payment Default  Failure of a Borrower to pay when due and in full any payment required for the Mortgage Loan, including, but not limited to, principal, interest, late charges, default interest, fees, prepayment premium, escrows, or other collateral accounts for taxes, insurance premiums, and assessments, other collateral accounts, and the Replacement Reserve.

Synonyms  • Payment Defaults

Payment Guaranty  Guaranty executed by a Key Principal on Form 4502 series or Form 6020 series, or approved by Fannie Mae.

Performance Default  Failure of a Borrower to perform any promise or covenant within any applicable grace periods under the related Mortgage Loan other than a failure that constitutes a Payment Default.

Synonyms  • Performance Defaults

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

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

PFP MBS  MBS backed by a PFP Mortgage Loan.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>PFP Mortgage Loan</td>
<td>Mortgage Loan originally purchased as a Cash Mortgage Loan or held in Fannie Mae’s portfolio, but subsequently securitized as an MBS.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• PFP Mortgage Loans</td>
</tr>
<tr>
<td>Phase I ESA</td>
<td>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.</td>
</tr>
</tbody>
</table>
| **Synonyms**                            | • Phase I Environmental Site Assessment  
• Phase I ESAs                           |
| Phase II ESA                            | Investigation performed according to current ASTM E 1903, or investigation other than a Phase I ESA, that may include analyzing soil, ground water, or building materials for contaminants, including any report summarizing the conclusions of the assessment. |
| **Synonyms**                            | • Phase II Environmental Site Assessment                                                                                                  |
| Plan Number                             | Number identifying the applicable loan characteristics for any Mortgage Loan that accrues interest at a variable rate at any time during the loan term. |
| Portfolio Mortgage Loan                 | Mortgage Loan purchased by Fannie Mae and held as of a certain date regardless of whether it is a Cash Mortgage Loan or an MBS Mortgage Loan. |
| **Synonyms**                            | • Portfolio Mortgage Loans  
• Portfolio Mortgage Loan’s
<table>
<thead>
<tr>
<th><strong>Pre-Existing Mortgage Loan</strong></th>
<th>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.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Pre-Existing Mortgage Loans</td>
</tr>
<tr>
<td><strong>Pre-Review</strong></td>
<td>Requirement that the Lender obtain Fannie Mae’s approval before Rate Lock of a Mortgage Loan.</td>
</tr>
<tr>
<td><strong>Prepayment Premium</strong></td>
<td>For a Mortgage Loan prepayment, amount the Borrower must pay in addition to the prepaid principal and accrued interest per the Loan Documents.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Prepayment Premiums</td>
</tr>
<tr>
<td><strong>PRF</strong></td>
<td>Account you hold accumulating principal amortization payments for variable rate Bond credit enhancements.</td>
</tr>
<tr>
<td><strong>Synonyms</strong></td>
<td>• Principal Reserve Fund</td>
</tr>
<tr>
<td><strong>Primary Risk Mortgage Loan</strong></td>
<td>Mortgage Loan where Fannie Mae bears all losses or where the Lender and Fannie Mae share losses.</td>
</tr>
</tbody>
</table>
| **Synonyms**                 | • Primary Risk Mortgage Loans  
• Primary Risk                                                                                                                                                                                      |
<p>| <strong>Principal</strong>                | 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. |
| <strong>Synonyms</strong>                 | • Principals                                                                                                                                                                                      |</p>
<table>
<thead>
<tr>
<th>Property</th>
<th>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).</th>
</tr>
</thead>
</table>
| 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 |
| Remarketing Agent | Person selected by the Issuer to reset the interest rate on the Bonds in order to resell any Bonds tendered by investors on the interest rate reset date. |
| REMIC | Real Estate Mortgage Investment Conduit |
| Remittance Date | Date the Servicer is required to make its Monthly Remittance to Fannie Mae for the Mortgage Loan. |
| 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 Agreement

The 4000 series Replacement Reserve and Security Agreement (Form 4606), or other agreement approved by Fannie Mae, that evidences the:

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

Synonyms
• Replacement Reserve Agreements

Replacement Reserve Schedule

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

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

Synonyms
• Replacement Reserve Schedules

Same Month Pooling

Delivery option permitting Mortgage Loans to be pooled and secure an MBS issued in the same month as the Mortgage Loan Origination Date.

Secondary Risk Mortgage Loan

Mortgage Loan where the Lender bears all losses until the Lender’s recourse obligations are exhausted.

Synonyms
• Secondary Risk Mortgage Loans
• Secondary Risk
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securitized Mortgage Loan</td>
<td>Mortgage Loan backing an MBS, PFP MBS, or REMIC.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Securitized Mortgage Loans</td>
</tr>
<tr>
<td>Security</td>
<td>MBS, PFP MBS, or REMIC.</td>
</tr>
<tr>
<td>Security Balance</td>
<td>For each MBS Pool, the Issue Date Principal Balance less any MBS principal distribution amounts included in previous MBS monthly remittances.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Security Balances</td>
</tr>
<tr>
<td>Security Instrument</td>
<td>Instrument creating a lien or encumbrance on 1 or more Properties and securing the obligations under the Loan Documents.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Security Instruments</td>
</tr>
<tr>
<td>Seniors Housing Major Renovation</td>
<td>Physical improvement at a Seniors Housing Property costing more than $20,000/unit, or $3 million in total project costs.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Seniors Housing Major Renovations</td>
</tr>
<tr>
<td>Seniors Housing Minor Renovation</td>
<td>Physical improvement at a Seniors Housing Property that is not a Seniors Housing Major Renovation, but which increases the number of units, or converts one type of unit (e.g., Independent Living, Assisted Living, or Alzheimer's/Dementia Care) into another, unless expressly permitted by the Loan Documents.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Seniors Housing Minor Renovations</td>
</tr>
</tbody>
</table>
Seniors Housing Property

Multifamily residential rental property with any combination of Independent Living, Assisted Living, Alzheimer’s/Dementia Care, or Skilled Nursing units.

**Synonyms**

• Seniors Housing

Servicer

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

**Synonyms**

• Servicers
• Servicer's

Servicing Advance

All amounts required to be paid by the Borrower, for:
• all taxes and assessments against each Property,
• all insurance premiums for insurance for each Property to insurance carrier(s) acceptable to Fannie Mae, in accordance with the Guide, and
• any other payment, as determined by Fannie Mae, necessary to preserve and protect the Property or to exercise any legal or equitable remedies (other than foreclosure) against the Borrower or the Property (including attorney, appraisal, or other professional fees) or any other obligations relating to the Property as set forth in the Loan Documents.

**Synonyms**

• Servicing Advances

Servicing Fee

Fee a Servicer receives for collecting payments, managing operational procedures, and assuming your portion of credit risk for a Mortgage Loan, and which may be expressed as a percentage.

**Synonyms**

• Servicing Fees
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Servicing File</td>
<td>File for each Mortgage Loan serviced by the Lender.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Servicing Files</td>
</tr>
<tr>
<td>Servicing Transfer Memo</td>
<td>Document containing the data and documentation needed to engage counsel and commence foreclosure proceedings (e.g., Form 4808).</td>
</tr>
<tr>
<td>Small Mortgage Loan</td>
<td>Mortgage Loan with an original loan amount less than or equal to $6 million and underwritten per Part III, Chapter 9: Small Mortgage Loans.</td>
</tr>
<tr>
<td>Synonyms</td>
<td>• Small Mortgage Loans</td>
</tr>
<tr>
<td>Special Asset Management</td>
<td>Team that performs the work of the Special Servicer for Fannie Mae that can be contacted at <a href="mailto:sam_legal_mailbox@fanniemae.com">sam_legal_mailbox@fanniemae.com</a>.</td>
</tr>
</tbody>
</table>
| Synonyms                      | • SAM  
  • Multifamily Special Asset Management                                                                                                                       |
| Special Flood Hazard Area     | Special Flood Hazard Area designated by FEMA.                                                                                                                     |
| Synonyms                      | • SFHA                                                                                                                                                           |
| Special Servicer              | Servicer (which may be Fannie Mae, the Servicer, or a third-party special servicer contracted by Fannie Mae) responsible for implementing the loss mitigation actions for a Non-Performing Mortgage Loan. |
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

Sponsor-Initiated Affordability  Voluntary rent and income restrictions recorded against the Property by the Borrower to preserve or create multifamily affordable housing.

Standby  Credit enhancement under which Fannie Mae makes principal and interest payments directly to the Bond Trustee (for payment to bondholders) if the Borrower fails to make required mortgage note payments or if a bankruptcy event has occurred.

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&I Custodial Account  Custodial Account for the deposit of T&I and other impound escrow funds.

Synonyms
• T&I Custodial Accounts

T&I Impositions  Amounts for taxes, insurance, and other charges assessed against or owing on the Property which you deem necessary to protect the Property and/or prevent Liens imposed on it.

Synonyms
• T&I Imposition

Tenant Site Lease Protections  MH Site Lease with the Homeowner or tenant of a Manufactured Home with:
• a 1-year renewable (at the MH Site Lease tenant’s election) lease term, unless good cause for nonrenewal exists;
• a minimum 30-day written notice of rent increases;
• 5-day minimum grace period for non-payment of rent, and the right to cure rent payment defaults within the specified cure period (or 10 days if no cure period is specified);
• the Homeowner’s right to:
  - sell the Manufactured Home without first relocating it out of the MH Community;
  - sublease or assign the MH Site Lease (for the remaining unexpired term), if the Manufactured Home purchaser satisfies the MH Community’s
    • rules and regulations, and
    • then-applicable credit and background check requirements;
  - post “for sale” signs on the MH Site per the MH Community’s rules and regulations; and
  - sell the Manufactured Home in place within 45 days after eviction, while the Manufactured Home remains on site and connected to public and private utilities; and
• at least 60-days notice before any planned MH Community sale or closure.
Transfer/Assumption  Transaction resulting in a change in the ownership of the Borrower or Property.

**Synonyms**
- Transfers/Assumptions

**U**

UCC  Uniform Commercial Code

UPB  Unpaid Principal Balance

**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