



Multifamily Selling and Servicing Guide

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Chapter 3

Moderate Rehabilitation Mortgage Loans

Section 301

Description

Requirements

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

| Product Description | |
|---|---|
| Minimum Per Unit Cost for Rehabilitation Work | <p>\$8,000 per unit:</p> <ul style="list-style-type: none">• based on the total number of residential units at the Property, not the number of units being rehabilitated; and• includes the estimated cost of all Completion/Repairs identified in the PCA (or MBA Master Inspection Form, if applicable). |
| Rehabilitation Timing | <p>The Rehabilitation Work must be completed as follows:</p> <ul style="list-style-type: none">• items identified as Completion/Repairs in the PCA, per Part II, Chapter 4: Inspections and Reserves, Section 403: Completion/Repairs;• Efficiency Measures qualifying for a Green Rewards Mortgage Loan, per Part III, Chapter 4: Green Mortgage Loans;• if the Moderate Rehabilitation Mortgage Loan meets the requirements for using the Appraised Value on an as completed basis (per Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation), then the Rehabilitation Work may be completed after the 12-month period, but not later than 36 months after the Mortgage Loan Origination Date; and• all other Rehabilitation Work, in a timely manner, but not later than 36 months after the Mortgage Loan Origination Date. |



| Product Description | |
|---------------------------|---|
| Completion/Repair Escrows | For Completion/Repairs identified in aPCA, if you require full or partial funding of a Completion/Repair Escrow, any higher funding amount you require above the estimated cost of Completion/Repairs must be funded. |
| Mezzanine Financing | If the Rehabilitation Work is funded through Mezzanine Financing, you must also comply with Part III, Chapter 16: Mezzanine Financing and Preferred Equity . |

Section 302

Underwriting

Requirements

| For all Moderate Rehabilitation Mortgage Loans... | |
|---|---|
| Rent or Income Restrictions | For Multifamily Affordable Housing Properties, you must ensure that the rents expected to be charged after Rehabilitation Work is completed are consistent with any rent or income restrictions. |
| Tenants, Guests, and Employees | You must identify and mitigate any risks that the Rehabilitation Work may have during the renovation period on <ul style="list-style-type: none">• the health and safety of tenants, guests, or employees at any time, and• tenant displacement, and consider a relocation plan to minimize the effects of the displacement. |

Guidance

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

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



specify a completion date?

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

Section 303

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

303.01 Rehabilitation Work Evaluation Report

Requirements

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

This rehabilitation work evaluation report must include:

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

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

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



Origination Date?

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

303.02 Rehabilitation Reserve Agreement

Requirements

You must ensure that the Borrower:

- Executes a Modifications to Multifamily Loan and Security Agreement (Rehabilitation Reserve – Moderate Rehabilitation) ([Form 6222.Mod](#)) that identifies the planned scope of the Rehabilitation Work on the Rehabilitation Work Schedule, including
 - all of the Rehabilitation Work items,
 - estimated costs,
 - allowance for cost overruns, and
 - completion dates.
- Completes a budget for the planned Rehabilitation Work.
- Funds a Rehabilitation Reserve Account with the:
 - entire budgeted amount (or a higher amount that you require) for all Rehabilitation Work that is not identified as Completion/Repairs by the PCA; and
 - estimated cost (or a higher amount that you require per [Part II, Chapter 4: Inspections and Reserves, Section 403: Completion/Repairs](#)) for Completion/Repairs.

Section 304 Supplemental Mortgage Loans

Requirements

Moderate Rehabilitation Supplemental Mortgage Loans must comply with [Part III, Chapter 14: Supplemental Mortgage Loans](#), except as modified by this Section.



| Supplemental Mortgage Loans | |
|------------------------------------|--|
| Origination Date | <ul style="list-style-type: none">• Must be originated within 36 months of the Moderate Rehabilitation Mortgage Loan's Origination Date.• Require no minimum period to elapse provided the minimum Rehabilitation Work is completed at the Property after origination of the Moderate Rehabilitation Mortgage Loan. |
| Loan Term | Must be coterminous with the Moderate Rehabilitation Mortgage Loan. |
| Completed Rehabilitation Work | <ul style="list-style-type: none">• Completed Rehabilitation Work or other repairs, replacements, or improvements must comply with this Chapter.• You must document evidence of the<ul style="list-style-type: none">- qualifying scope of work completed at the Property, and- cost of work and improvements to the Property verified by you. |
| Site inspection | You must perform a site inspection if the qualifying work was not completed pursuant to a Completion/Repair Agreement or a Rehabilitation Reserve Agreement. This requirement may be satisfied if the most recent asset management site inspection was conducted after the required work was completed at the Property. |
| Rate Lock | Are not eligible for the Streamlined Rate Lock option. |



Glossary

A

Appraised Value

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

Synonyms

- Appraised Values

B

Borrower

Person who is the obligor under the Note.

Synonyms

- Borrowers
- Borrower's

C

Completion/Repair Agreement

Document evidencing the Borrower's agreement to undertake Completion/Repairs and other identified capital improvements, the terms for funding the repairs, maintenance, or capital items, and the disbursement of funds from the Completion/Repair Escrow (e.g., Form 4505, or the applicable parts of the Multifamily Loan Agreement (Form 6001 series), including the Required Repair Schedule to the Multifamily Loan Agreement).

Synonyms

- Completion/Repair Agreements

Completion/Repair Escrow

Custodial Account established by the Lender and initially funded by an escrow deposit from the Borrower on the Mortgage Loan Origination Date to complete Completion/Repairs or other capital improvements at the Property.



Completion/Repairs

Immediate Repairs identified by the Property Condition Assessment and required by the Lender to be included in the Completion/Repair Agreement (or a Certificate of Borrower, if applicable).

Synonyms

- Completion/Repair

E

Efficiency Measures

Energy- and water-efficiency measures that the Borrower agrees to implement, and which project a reduction in the Property's annual energy or water consumption.

Synonyms

- Efficiency Measure

G

Guaranty

Payment Guaranty, Non-Recourse Guaranty, or other guaranty by a Guarantor for the Mortgage Loan.

K

Key Principal

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

Synonyms

- Key Principals

L



Letter of Credit

Letter of Credit approved by Fannie Mae per Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit.

Synonyms

- Letters of Credit
- LOC
- LOCs

M

MBA

Mortgage Bankers Association

Mezzanine Financing

Subordinate debt financing provided to a direct or indirect owner of a Borrower that is secured by a pledge of the direct or indirect equity interest in the Borrower held by the owner, and not by a Lien on the Property.

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
Origination Date

Date the Lender funds a Mortgage Loan to the Borrower.

Synonyms

- Mortgage Loan's Origination Date
- Origination Date

P

PCA Consultant

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



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

Synonyms

- Properties
- Property's

R

Rate Lock Agreement between the Lender and the Investor containing the terms of the Lender-Arranged Sale or Multifamily Trading Desk trade of the Mortgage Loan and the MBS terms and conditions relating to the underlying MBS, if applicable, which may be documented via a recorded telephone conversation.

Synonyms

- Rate Locks

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

Rehabilitation Reserve Agreement Borrower's agreement to undertake identified Rehabilitation Work, the terms for funding the Rehabilitation Work, and the disbursement of funds from the Rehabilitation Reserve Account (e.g., [Form 6222.Mod](#), [Form 6222.Sub](#), or [Form 4523](#)).

Rehabilitation Work Aggregate repairs, replacements, or improvements (including all Completion/Repairs) required to be performed and completed within a specified time period after the Mortgage Loan Origination Date for a Moderate Rehabilitation Property.

S



Security

MBS, PFP MBS, or REMIC.

Sponsor

Principal equity owner and/or the primary decision maker of the Borrower (often the Key Principal or the Person Controlling the Key Principal).