



Fannie Mae®

Multifamily Selling and Servicing Guide

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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?



Glossary

B

Borrower Person who is the obligor per the Note.

Synonyms

- Borrowers
- Borrower's

C

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 funded on the Mortgage Loan Origination Date for Completion/Repairs or capital improvements per the Loan Documents.

G

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

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

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
- Letter of Credit's
- LOC
- LOCs

R

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



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