Fannie Mae®

Multifamily Selling and Servicing Guide

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Section 603 Legal and Property Compliance

603.01 Borrower and the MH Community

603.01A Borrower Ownership

Requirements

If the Borrower is a non-profit entity, then you must ensure that each of the following complies with Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals:

- the Borrower;
- Key Principals;
- Guarantors; and
- Principals.

Guidance

If the Borrower is a non-profit entity, you may reimburse the Borrower from the Origination Fee for up to a combined total of $10,000 for the cost of any required MH Community Mortgage Loan third-party reports (e.g., Appraisal, Environmental Site Assessment).

Operating Procedures

Fannie Mae will reimburse the cost of any third-party report within 2 months after the delivery of the Mortgage Loan. To receive reimbursement, you must:

- request an invoice from the vendor with the report cost listed as a separate line item from any ancillary charges (Fannie Mae will not reimburse other costs such as fees for expediting a report);
- within 1 month after the Mortgage Loan Origination Date:
  - complete Form 4829, detailing the Lenders information, the commitment number or loan number, Property information, wiring instructions, and listing the third-party cost as Other (note that any fields related to servicing may be left blank); and
  - manually sign or e-sign Form 4829, scan or save it as a PDF file, and email the signed PDF Form 4829 and the third-party report invoice to: mhc_report_reimbursement@fanniemae.com.

603.01B Collateral; Tenant-Occupied and Affiliate-Owned Homes

☑ Requirements

The collateral for an MH Community Mortgage Loan consists of

- the MH Community's land and infrastructure,
- the rents for the MH Sites, and
- any other Borrower-owned property used for the MH Community.

The percentage of tenant-occupied Manufactured Homes must not exceed 35%. If the percentage of tenant-occupied Manufactured Homes is greater than 25%, then:

- the Borrowers business plan must reflect the conversion of tenant-occupied Manufactured Homes to owner-occupied over time; and
- ongoing business related to the sale, financing, or rental of a Manufactured Home located on the Property must be performed by an Affiliate.

If any Affiliate-Owned Manufactured Homes are leased to tenants by an Affiliate of either the Borrower or a Key Principal, then:

- The MH Site lease must be at a market rate rent.
- If the tenants rent payment includes both the rent for the Affiliate-Owned Manufactured Home and the rent for the MH Site, then either:
  - the check must be payable to and deposited by the Borrower, which must pay all required P&I, and escrows before remitting the rent payment to the Affiliate; or
  - you must consider whether it is appropriate to require a lockbox arrangement with the Borrower and the Affiliate
    - into which all rent checks for the Manufactured Homes and MH Sites must be deposited, and
    - from which you can control the disbursement of funds for P&I, required escrows, and the Manufactured Home rentals, with the remainder disbursed to the Borrower.

603.01C MH Community

☑ Requirements

An eligible MH Community must:

- have a minimum of 50 MH Sites;
- consist of contiguous parcels or, if the MH Community is made up of Non-Contiguous Parcels:
  - all parcels must be located within the same MSA; and
  - each separate parcel (individually), and all Non-Contiguous Parcels (together), must comply with the Guide; and
- achieve at least a Level 3 Quality Rating per the Manufactured Housing Community Quality Rating Standards table in Part III, Chapter 6: Manufactured Housing Communities, Section 603.02: MH Community Score.

An MH Community must be served by either

- public underground utilities, or
- private sewage treatment plants, septic systems, and private water wells which are:
  - common for the market;
  - owned by the Borrower or an Affiliate; and
  - in compliance with all applicable government requirements.

Guidance

The Mortgage Loan may be secured by either an Age-Restricted MH Community or an All-Age MH Community.

You should consider the following:

- For an MH Community that is more than 25 years old, does the Borrower have a plan for placing new Manufactured Homes in the MH Community as MH Sites with older Manufactured Homes are vacated?
- Are the landscaping and entrance signage high quality and well maintained?
- For an MH Community served by a private sewage treatment plant, septic system, or a private water well, then:
  - Address the availability and cost of obtaining a backup source for water if the MH Community has a private water well.
  - Ensure that the operator of the facility, including its employees and contractors, meet all applicable government requirements to perform ongoing operation and maintenance.
  - If the operator is an employee of the Borrower, identify a local,

qualified vendor that could be retained if substitute services are needed.

- Exercise reasonable due diligence, including contacting municipal agencies, to confirm that
  - the MH Communitys connection to a municipal system has not been mandated, and
  - no mandate is expected to occur during the term of the Mortgage Loan.
- If hookup is imminent, determine if an escrow for the cost is appropriate.

603.02 MH Community Score

☑ Requirements

You must determine the MH Community Score using the MH Community Quality Rating Standards table. The overall MH Community Quality Rating is based on the lowest rating for any 1 characteristic.

The MH Community must:

- meet a Level 3 Quality Rating; or
- achieve most of the minimum Quality Rating characteristics and either
  - the unsatisfactory characteristics are not materially detrimental to the performance, overall appearance, desirability, and quality of the MH Community, or
  - any failed characteristic must be remediated as a Completion/Repair item.

Manufactured Housing Community Quality Rating Standards			
Characteristic	Level 3 Quality Rating	Level 4 Quality Rating	Level 5 Quality Rating
	Minimum Standard	Minimum Standard applies (except as detailed)	Level 4 applies (except as detailed)

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

Manufactured Housing Community Quality Rating Standards			
Characteristic	Level 3 Quality Rating	Level 4 Quality Rating	Level 5 Quality Rating
	Minimum Standard	Minimum Standard applies (except as detailed)	Level 4 applies (except as detailed)
Site Size	Preference for 50% doublewide MH Sites, however you have delegated discretion on the percentage of doublewide sites as long as the MH Community is competitive with a clear market demand for singlewide MH Sites.	Same as Level 3.	Minimum 50% doublewide MH Sites.
Density	Density reflects the norm for the Property market. Generally, maximum density is 12 MH Sites per acre, however you have delegated discretion to determine the typical density in your market.	Density reflects the norm for the Property market. Generally, maximum density is 7 MH Sites per acre, or 10 MH Sites per acre if developed before 2000.	Same as Level 4.

Manufactured Housing Community Quality Rating Standards			
Characteristic	Level 3 Quality Rating	Level 4 Quality Rating	Level 5 Quality Rating
	Minimum Standard	Minimum Standard applies (except as detailed)	Level 4 applies (except as detailed)
Skirts/Hitches	100% of the Manufactured Homes are professionally skirted, with hitches covered or removed. You can meet this requirement through a Completion/Repair Schedule.	Same as Level 3.	All of the Manufactured Homes are professionally skirted, with hitches removed.
Parking	Minimum of 2 on- or off-street parking spaces per MH Site that are properly maintained, paved, concrete, or gravel (if common in the market). You have delegated discretion to determine compliance based on prevailing market conditions, subject to local ordinances.	Same as Level 3.	2 paved off-street parking spaces per MH Site.

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

603.03 Code Standards

Requirements

You must:

- determine if all Manufactured Homes in the MH Community meet the requirements of the Manufactured Home HUD Code; and
- ensure the Loan Documents require Borrower certification that no additional Manufactured Homes predating the Manufactured Home HUD Code will be added to the MH Community during the Mortgage Loan term.

Guidance

Fannie Mae may allow Manufactured Homes predating the Manufactured Home HUD Code if

- they are Borrower-owned Manufactured Homes or Affiliate-Owned Homes that comply with local codes with no identified life safety issues, and
- you document the number of Manufactured Homes predating the Manufactured Home HUD Code.

Fannie Mae may allow rental units that do not comply with the Manufactured Home HUD Code (e.g., certain park model recreational vehicles) if the rental income is included as commercial income in Part III, Chapter 6: Manufactured Housing Communities, Section 606: Property Income and

Underwritten NCF.

603.04 Flood Zone

603.04A Rising Water

☑ Requirements

For an MH Community located in a flood zone with rising water (e.g., flood water that quickly dissipates and flood zone A or AE) you must ensure the Borrower notifies all Homeowners and all tenants of Borrower-owned or Affiliate-Owned Homes occupying an MH Site located in the flood zone before the Mortgage Loan Origination Date.

For Manufactured Homes located in a rising water flood zone...	
If you • do not know the base flood elevation for the flood zone (e.g., flood zone A), or • know that the living floor levels are below the base flood elevation	Then: • you must calculate the Underwritten DSCR excluding the site rent for Manufactured Homes with living floor levels within the flood zone; and • if the resulting Underwritten DSCR decreases to more than 10 basis points below the minimum Tier 2 standard, you cannot underwritethe site rent for those Manufactured Homes.

603.04B Moving Water

☑ Requirements

For an MH Community located in a flood zone with the potential for flooding due to moving water (e.g., typically in flood zone A and AE and located next to a stream, river, etc.), you must ensure:

- your underwriting assumes that MH Sites located in the flood zone are considered non-income producing MH Sites; and
- the Borrower notifies all Homeowners and all tenants of Borrower-owned or Affiliate-Owned Homes occupying an MH Site located in the flood zone before the Mortgage Loan Origination Date.

603.05 Lease Terms

603.05A Master Leases

Requirements

You must ensure there are no master lease arrangements affecting any of the MH Sites.

603.05B MH Site Leases

Requirements

MH Site Leases must

- be in writing, and
- not contain an option to purchase the MH Site.

The Borrower must agree to implement the Tenant Site Lease Protections for all MH Sites by the end of the first loan year.

Operating Procedures

The Tenant Site Lease Protections may be incorporated

- by amending each MH Site Lease; or
- within the MH Communitys rules and regulations, if the MH Site Lease incorporates the rules and regulations by reference.

The Multifamily Loan Agreement must include a:

- covenant to implement the Tenant Site Lease Protections by the end of the first loan year;
- requirement that, if the Tenant Site Lease Protections were implemented within the MH Communitys rules and regulations:
  - the rules and regulations are publicly posted; and
  - each lessee of an MH Site Lease receives written notice of the Tenant Site Lease Protections; and
- Borrower:
  - representation stating the percentage of MH Site Leases with the Tenant Site Lease Protections;
  - covenant to continue the Tenant Site Lease Protections over the entire Mortgage Loan term; and

- requirement to annually submit to you a:
  - certified copy of the MH Communitys current Rules and Regulations;
  - 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;
  - certified copy of the current form of Residential Leases for MH Sites;
  - copy of any requested MH Site Leases; and
  - certification of the percentage of MH Site Leases with the Tenant Site Lease Protections.

Guidance

You may allow

- month-to-month lease terms,
- lease terms for up to 2 years, and
- lease terms longer than 2 years, but only if the lease provides for:
  - an annual rent increase sufficient to cover the current and/or projected Consumer Price Index (CPI);
  - the pass-through of real estate taxes over a base year;
  - the pass-through of any utilities provided by the Borrower; and
  - cannot result in the Manufactured Home on the MH Site being titled as real estate.

603.05C Loan Document Modification

Requirements

You must modify the Loan Documents to reflect the use of short-term or long-term leases.

Glossary

A

Affiliate	When referring to an affiliate of a Lender, any other Person or entity that Controls, is Controlled by, or is under common Control with, the Lender. When referring to an affiliate of a Borrower or Key Principal: • any Person that owns any direct ownership interest in Borrower or Key Principal; • any Person that indirectly owns, with the power to vote, 20% or more of the ownership interests in Borrower or Key Principal; • any Person Controlled by, under common Control with, or which Controls, Borrower or Key Principal; • any entity in which Borrower or Key Principal directly or indirectly owns, with the power to vote, 20% or more of the ownership interests in such entity; or • any other individual that is related (to the third degree of consanguinity) by blood or marriage to Borrower or Key Principal. **Synonyms** • Affiliates • Affiliate's
Affiliate-Owned Manufactured Home	Manufactured Home or park model home located on an MH Site that is owned by an Affiliate of the Borrower. **Synonyms** • Affiliate-Owned Manufactured Homes • Affiliate-Owned Home • Affiliate-Owned Homes
Age-Restricted MH Community	MH Community that limits residents to those who are over a particular age (e.g., persons who are age 62 or older, or at least 80% of the Manufactured Homes occupied by at least 1 person who is age 55 or older).

All-Age MH Community	MH Community that accepts residents of any age.
Appraisal	Written statement independently and impartially prepared by a qualified Appraiser stating an opinion of the Property's market value • as of a specific date, and • supported by the presentation and analysis of relevant market information. **Synonyms** • Appraisals • Appraisal's

B

Borrower	Person who is the obligor per the Note. **Synonyms** • Borrowers • Borrower's

C

Collateral	Property, Personal Property, or other property securing a Mortgage Loan.
Commitment	Contractual agreement between you and Fannie Mae where Fannie Mae agrees to buy a Mortgage Loan at a future date in exchange for an MBS, or at a specific price for a Cash Mortgage Loan, and you agree to Deliver that Mortgage Loan. **Synonyms** • Committed • Commitments

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 Fannie Mae-approved agreement, evidencing: • the Borrowers agreement to - fund the Completion/Repair Escrow, and - perform Completion/Repairs; and • Completion/Repair Escrow disbursement terms. **Synonyms** • Completion/Repair Schedules
Completion/Repairs	Repairs or capital item replacements and deferred maintenance: • identified per the Property Condition Assessment; and • required per the - Completion/Repair Schedule, or - Completion/Repair Agreement. **Synonyms** • Completion/Repair
Control	Possessing, directly or indirectly, the power to direct or cause the management and operations of an entity (e.g., through the ownership of voting securities or other ownership interests, or by contract). **Synonyms** • Controlling • Controlled • Controls

D

Debt Service Coverage Ratio	On an annual basis or any specified period, the ratio of Net Cash Flow to the total of: principal, interest, and required Mezzanine Financing or Hard Pay Preferred Equity payments. **Synonyms** • DSCR
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 Maes satisfaction. **Synonyms** • Deliver • Delivered • Deliveries

E

Environmental Site Assessment	Investigation and resulting report (Phase I ESA or Phase II ESA) conducted per Environmental Due Diligence Requirements (Form 4251), identifying if a Property has Recognized Environmental Conditions or Business Environmental Risks. **Synonyms** • ESA • Environmental Site Assessments

G

Guarantor	Key Principal or other Person executing a • Payment Guaranty, • Non-Recourse Guaranty, or • any other Mortgage Loan guaranty. **Synonyms** • Guarantors

Guide	Multifamily Selling and Servicing Guide controlling all Lender and Servicer requirements unless a Lender Contract specifies otherwise. **Synonyms** • DUS Guide

H

Homeowner	For an MH Community, a tenant of the Borrower who pays ground rent to the owner for use and occupancy of the MH Site and for use of the MH Communitys utilities and amenities. **Synonyms** • Homeowners
HUD	U.S. Department of Housing and Urban Development **Synonyms** • HUD's

I

Index	Basis for determining an ARM Loan Gross Note Rate or entering a Streamlined Treasury Lock on a fixed rate Mortgage Loan, including any required alternative index deemed necessary by Fannie Mae because the prior Index: • is no longer widely accepted; or • was replaced as the index for similar financial instruments.

K

Key Principal	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/or • may be required to provide a Guaranty. **Synonyms** • Key Principals • Key Principal's

L

Lease	Written agreement between an owner and the tenant of a Property stipulating the conditions for possession and use of real estate for a specified period of time and rent. **Synonyms** • Leases
Lender	Person Fannie Mae approved to sell or service Mortgage Loans. **Synonyms** • Lenders • Lender's
Loan Documents	All Fannie Mae-approved documents evidencing, securing, or guaranteeing the Mortgage Loan. **Synonyms** • Loan Document • Mortgage Loan Document • Mortgage Loan Documents
Loan Number	10-digit number assigned by Fannie Mae to each Mortgage Loan.

Loan Year	Period beginning on the date of the Note and ending on the last day of the month that is 12 full months after the date of the Note, and each successive 12-month period thereafter. **Synonyms** • Loan Years

M

Manufactured Home	Factory-built home complying with the Manufactured Home HUD Code. **Synonyms** • Manufactured Homes
Manufactured Home HUD Code	National Manufactured Home Construction and Safety Standards Act of 1974 (HUD Code) (42 USC 5401 et seq) and the Manufactured Home Construction and Safety Standards (24 CFR Part 3280), as amended.
Manufactured Housing Community	Residential real estate development with lots on which manufactured homes are located, together with amenities, utility services, landscaping, roads, and other infrastructure. **Synonyms** • Manufactured Housing Property • MH Community • MH Community's • MH Communities • MHC

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Manufactured Housing Community Score	Score of 3 through 5 based on characteristics of the MH Community per Part III, Chapter 6: Manufactured Housing Communities, Section 603.02: MH Community Score. **Synonyms** • MH Community Score • MHC Score
Manufactured Housing Site	Developed lot within an MH Community on which a Manufactured Home can be located. **Synonyms** • MH Site • MH Sites
Metropolitan Statistical Area	Geographic delineation for a metropolitan area determined by the U.S. Census Bureau. **Synonyms** • MSA • MSA's
Mortgage Loan	Mortgage debt obligation evidenced, or when made will be evidenced, by • the Loan Documents, or • a mortgage debt obligation with a Fannie Mae credit enhancement. **Synonyms** • Mortgage Loans • Mortgage Loan's
Mortgage Loan Origination Date	Date you fund a Mortgage Loan to the Borrower. **Synonyms** • Mortgage Loan's Origination Date • Origination Date

Multifamily Loan Agreement	Agreement evidencing Mortgage Loan terms using • Form 6001 series Loan Documents, or • another Fannie Mae-approved form. **Synonyms** • Multifamily Loan Agreements

N

Net Cash Flow	At underwriting or for any specified period, the amount calculated per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis and the applicable products and features in Part III. **Synonyms** • NCF
Non-Contiguous Parcels	Multiple parcels of land securing a Mortgage Loan that do not share common boundaries or that are separated by dedicated or private streets that are major arterials. **Synonyms** • Non-Contiguous Parcel

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

O

Origination Fee	Fee you charge the Borrower for underwriting and originating the Mortgage Loan. **Synonyms** • Origination Fees

P

P&I	Principal and interest
Pricing and Underwriting Tier	Tier 1, Tier 2, Tier 3, or Tier 4 per the Multifamily Underwriting Standards (Form 4660). **Synonyms** • Tier
Principal	Person who owns or controls, in the aggregate, directly or indirectly (together with that Person's Immediate Family Members, if an individual), specified interests in the Borrower per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 303: Key Principals, Principals, and Guarantors. **Synonyms** • Principals
Property	Multifamily residential real estate securing the Mortgage Loan, including the • fee simple or Leasehold interest, • Improvements, and • personal property (per the Uniform Commercial Code). **Synonyms** • Properties • Property's

T

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 tenants 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 Homeowners 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 Communitys ▪ rules and regulations, and ▪ then-applicable credit and background check requirements; - post for sale signs on the MH Site per the MH Communitys 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. **Synonyms** • Tenant Site Lease Protection • TSLP

U

Underwritten Debt Service Coverage Ratio	Ratio of Underwritten Net Cash Flow to the annual debt service for a Mortgage Loan amount based on a level debt service payment with the applicable amortization, and calculated per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis, as adjusted for the applicable products and features in Part III. **Synonyms** • Underwritten DSCR