



Fannie Mae®

Multifamily Selling and Servicing Guide

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TABLE OF CONTENTS

Part II Chapter 4 Inspections and Reserves	3
Section 401 Site Inspection and Lease Audit	3
Section 402 Brokered Transactions	4
Section 403 Property Condition Assessment (PCA)	6
403.01 When to Perform a PCA	6
403.02 Date of PCA Report and PCA Site Visit	6
403.03 Conducting the PCA	6
Section 404 Completion/Repairs	7
404.01 Property Evaluation	7
404.02 Completion/Repairs Funding	9
404.03 Life Safety Issues	9
404.04 Verifying Completion/Repairs	10
Section 405 Replacement Reserve	10
405.01 Determining Replacement Reserve	10
405.02 Replacement Reserve Funding	11
405.03 Alternative Replacement Reserve Funding	11
Section 406 Escrow Requirements for Taxes and Insurance	12
406.01 Escrows	12
406.02 Real Estate Tax Escrow Funding	12
406.03 Insurance Escrow Funding	12
GLOSSARY	14



Chapter 4 Inspections and Reserves

Section 401 Site Inspection and Lease Audit

Requirements

Before the Commitment Date, you must ensure:

- your qualified employee per [Part V, Chapter 5: Surveillance, Section 502.05A: Qualifications](#):
 - performs a physical inspection of the Property; and
 - completes the MBA Standard Inspection Form; and
- a lease audit was conducted reconciling the inspection findings with the:
 - rent roll; and
 - lease terms.

You must:

- randomly select Property units for inspection; and
- not Deliver any Mortgage Loan secured by a Property that has an overall rating of 4 or 5 per the Comprehensive Assessment tab of the MBA Standard Inspection Form.

If the Property's rent roll indicates an inspected unit is occupied:

- the inspector must confirm the unit is occupied; and
- you must:
 - confirm the inspector's findings during your lease audit; and
 - complete a lease audit form or document your reconciliation of lease terms with the rent roll.

Guidance

When auditing the leases:

- include a:
 - minimum of 5 leases; and
 - maximum of the lesser of



- 30 leases, or
- 10% of the leases;

- at least 50% of the audited leases should include a combination of
 - inspected units,
 - recent renewals, and
 - newly signed leases sufficient to verify rent trends;

- if you detect material discrepancies during the initial review, increase the number of lease reviews;

- include a tenant file review; and

- review the cash ledger or receipts journal to validate rent collections.

Section 402 Brokered Transactions

Requirements

For any Brokered Transaction, you must order:

- all third-party underwriting reports; and
- a Brokered Transaction Inspection per [Form 4229](#), unless the Property had an overall rating of 1 on your most recent inspection per [Part V, Chapter 5: Surveillance, Section 502: Property Inspections](#), for a
 - Supplemental Mortgage Loan, or
 - Choice Refinance Loan.

Operating Procedures

To obtain a Brokered Transaction Inspection, you must:

- use a Fannie Mae-approved Brokered Transaction inspector per [Form 4229](#);
- request an exterior inspection; and
- not discuss the Property's rating with the Brokered Transaction inspector.

Requirements

After receiving the Brokered Transaction Inspection report, you must:



- review
 - the Brokered Transaction Inspection report,
 - any required PCA Report, and
 - the MBA Standard Inspection Form;
- ensure all rating differences among these 3 reports are:
 - reconciled;
 - approved by your Chief Underwriter; and
 - documented in your Transaction Approval Memo; and
- not Deliver a Mortgage Loan if the Brokered Transaction Inspection's overall rating is 4 or 5.

You must:

- determine if any of these reports identifies
 - deferred maintenance,
 - near-term capital item replacement,
 - necessary life safety or critical repairs, or
 - major components exhibiting a declining trend;
- incorporate all associated costs into the
 - Completion/Repair Schedule, or
 - Replacement Reserve Schedule; and
- document the items in your Transaction Approval Memo.

Operating Procedures

At Delivery, upload the Brokered Transaction Inspection report to DUS DocWay.

Data Entry	
For...	You must complete the following data fields...
DUS Gateway	<ul style="list-style-type: none">• Broker/Correspondent Company Name; and• Broker/Correspondent Individual Name.
Acquisition Systems	<ul style="list-style-type: none">• Broker/Correspondent Company; and• fees paid to the Broker or Correspondent.



Section 403 Property Condition Assessment (PCA)

403.01 When to Perform a PCA

Requirements

Before the Commitment Date, you must:

- complete a PCA for each Property unless it is a Supplemental Mortgage Loan that complies with [Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402.05: Streamlined Underwriting](#); and
- ensure all:
 - [Potential Red Flags for Mortgage Fraud and Other Suspicious Activity](#) were considered; and
 - unresolved red flags were reported per [Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance](#).

403.02 Date of PCA Report and PCA Site Visit

Requirements

A PCA Report ([Form 4099](#)) containing an HPB Module (or any standalone HPB Report) must be dated as of the date of the site visit by the PCA Consultant, and must be less than 6 months before the Commitment Date.

A PCA report that does not include an HPB Module may be dated up to 12 months before the Commitment Date if you:

- ensure a site visit is performed within 90 days before the Commitment Date; and
- confirm that there has been no material adverse change to the physical condition of the Property since the date of the PCA report.

403.03 Conducting the PCA

Requirements

When conducting the PCA, you must:

- comply with [Form 4099](#), and order all applicable PCA modules;



- identify all conditions that impact resident safety, marketability, or value of the Property; and
- properly mitigate those conditions.

If you retain a PCA Consultant that does not meet the educational qualifications or professional certifications, registrations, or training required by [Form 4099](#), you must:

- determine that the PCA Consultant is qualified based on their alternative qualifications; and
- attach your description of the PCA Consultant's qualifications to the final PCA.

You must have an annual quality control program to review

- the quality of the PCAs performed by your PCA Consultant, and
- your compliance with the requirements in this Section and the [Form 4099](#).

Section 404 Completion/Repairs

404.01 Property Evaluation

Requirements

You must determine whether the Borrower will need to fund the Completion/Repair Escrow by evaluating

- the physical condition of the Property,
- the financial condition of the Borrower, and
- all necessary life safety Completion/Repairs.

You must include the estimated expense of all Completion/Repairs with the cost of all other Rehabilitation Work to determine whether you need to follow the requirements of [Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans](#) for a Moderate Rehabilitation Property.

Guidance

The Completion/Repair Schedule should include:

- Property needs identified as Immediate Repairs in the PCA, including:
 - life safety repairs;



- critical repairs;
 - deferred maintenance; and
 - short-term replacement of capital items; and
- any capital improvements not recommended by the PCA Consultant that
- the Borrower will make after the Mortgage Loan Origination Date, and
 - you want the Appraiser to include in its opinion of the market value of the Property on an “as completed” basis.

You should ensure that the Borrower completes the repairs and improvements identified on the Completion/Repair Schedule as outlined below.

Type of item...	Complete as follows...
For items identified as life safety repairs in the PCA	Comply with Part II, Chapter 4: Inspections and Reserves, Section 404.03: Life Safety Issues.
For items identified as critical repairs in the PCA	Within 6 months after the Mortgage Loan Origination Date, or sooner if recommended by the PCA Consultant.
For items identified as repairs required to comply with the Americans With Disabilities Act in the PCA	Within 90 days or less per applicable laws, ordinances, or building codes.
For items identified as deferred maintenance or items of note in the PCA	Within 12 months after the Mortgage Loan Origination Date, or sooner if recommended by the PCA Consultant.
For items identified as short-term replacement of capital items in the PCA	By the specific date recommended by the PCA Consultant, but may be longer than 12 months after the Mortgage Loan Origination Date.



Type of item...	Complete as follows...
For capital improvements that are <ul style="list-style-type: none">• to be made by the Borrower in addition to those included on the PCA, and• included in the Appraisal opinion of the Property's market value on an "as completed" basis	Comply with Part II, Chapter 2: Valuation and Income, Section 202.02A: Appraised Value.
For items identified as a Completion/Repair by the PCA when the estimated expense requires you to comply with Part III, Chapter 3 for a Moderate Rehabilitation Property	Comply with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans.
For all other Rehabilitation Work that was not identified as a Completion/Repair by the PCA	Comply with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans.

404.02 Completion/Repairs Funding

Requirements

When full or partial funding of the Completion/Repair Escrow is required, you must complete the Completion/Repair Schedule.

Guidance

The amount funded into the Completion/Repair Escrow on the Mortgage Loan Origination Date should be at least 125% of the estimated cost of the required Completion/Repairs.

You may choose not to fund the Completion/Repair Escrow entirely if you determine the Borrower has the financial capacity to fully address all Completion/Repairs in the PCA.

Requirements

If you choose not to fund the Completion/Repair Escrow entirely, you must obtain written assurances from the Borrower in the Multifamily Loan Agreement that all necessary Completion/Repairs will be completed within a stated period of time following the Mortgage Loan Origination Date.



404.03 Life Safety Issues

Requirements

You must ensure that all life safety repairs and remediation work for code violations are included on the Completion/Repair Schedule.

All life safety repairs must be completed

- for an acquisition, within 60 days after the Mortgage Loan Origination Date, or
- in all other cases, before delivering the Mortgage Loan to Fannie Mae.

Guidance

You should consider requiring an escrow deposit (for at least 125% of estimated costs) to cover these required Completion/Repairs.

404.04 Verifying Completion/Repairs

Requirements

You must verify that the Borrower has made all required Completion/Repairs

- whether the Completion/Repair Escrow was funded or not, and
- during your Property inspections before the required completion date.

Section 405 Replacement Reserve

405.01 Determining Replacement Reserve

Requirements

You must ensure that the Borrower has sufficient reserves to cover anticipated capital replacement and major maintenance costs. The total amount in the Replacement Reserve should equal or exceed the anticipated costs (adjusted for inflation) of all necessary capital item replacements and major maintenance needs and repairs for the period from the Mortgage Loan Origination Date to whichever is sooner:

- 2 years after the Maturity Date of the Mortgage Loan; or
- 12 years after the Mortgage Loan Origination Date.

In order to determine the minimum amount of the Replacement Reserve, you must:



- Obtain a PCA (Form 4099).
- Complete the schedule of items to be included in the Replacement Reserve Schedule
 - using the cost estimates in the PCA, and
 - taking into account any items not already included on the Completion/Repair Schedule.

405.02 Replacement Reserve Funding

Requirements

You must ensure that the costs of all items included in the Replacement Reserve Schedule have been fully funded for

- any Tier 2 Mortgage Loan, and
- any Mortgage Loan, regardless of Tier, that requires Completion/Repairs costing more than
 - 4% of the Property's Underwriting Value for refinance transactions, or
 - 6% of the Property's Underwriting Value for acquisition transactions.

If you choose to modify the Loan Documents to not fund a Replacement Reserve for a Tier 3 or Tier 4 Mortgage Loan, you must use the appropriate Replacement Reserve Schedule.

Guidance

You may choose not to fund a Replacement Reserve for any Tier 3 or Tier 4 Mortgage Loan if

- the required Completion/Repairs do not exceed the levels specified in this Section, and
- you determine that the Borrower has the financial capacity to fully address future capital expenditures as outlined in the PCA.

405.03 Alternative Replacement Reserve Funding

Guidance

Instead of full funding, you may choose this alternative method for funding the Replacement Reserve.



Requirements

If you choose this alternative funding, you must have the Borrower deposit the following amounts on the Mortgage Loan Origination Date:

- Monthly deposits for at least 2 years.
- For any significant capital item replacement or major maintenance need that you deem appropriate, an amount sufficient to cover anticipated costs for the period from the Mortgage Loan Origination Date to whichever is sooner:
 - 2 years after the Maturity Date of the Mortgage Loan; or
 - 12 years after the Mortgage Loan Origination Date.

You must hold these amounts in the Replacement Reserve for the entire term of the Mortgage Loan, and may not make them available for refund to the Borrower until the Mortgage Loan has been paid in full.

Section 406 Escrow Requirements for Taxes and Insurance

406.01 Escrows

Requirements

You must require any Tier 2 Mortgage Loan Borrower to make monthly escrow deposits for real estate taxes and insurance premiums.

406.02 Real Estate Tax Escrow Funding

Guidance

You may choose not to fund monthly escrow deposits for real estate taxes for a Tier 3 or Tier 4 Mortgage Loan.

Requirements

If you choose not to fund monthly deposits for real estate taxes then you must ensure all taxes are paid timely.

406.03 Insurance Escrow Funding

Guidance

You may choose not to fund monthly escrow deposits for insurance premiums for a Tier 3 or Tier 4 Mortgage Loan.



Requirements

If you choose not to fund monthly deposits for insurance premiums, you must require the Borrower to provide annual proof of payment of all insurance premiums.



Glossary

A

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

Appraised Value

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

Synonyms

- Appraised Values

Appraiser

Person engaged to estimate a Property's market value per USPAP.

Synonyms

- Appraiser's
- Appraisers

B

Borrower

Person who is the obligor per the Note.

Synonyms

- Borrowers
- Borrower's



Brokered Transaction Any Mortgage Loan sourced by you using a third party (e.g., a Mortgage Loan Broker or Correspondent) for which the third party receives a referral or other similar fee paid by you or on behalf of the Borrower. A Brokered Transaction does not include using an investment sale broker retained solely to assist in selling a Portfolio Mortgage Loan Property that is not being refinanced with Fannie Mae.

Synonyms

- Brokered Transactions

C

Choice Refinance Loan Mortgage Loan refinancing a Portfolio Mortgage Loan using streamlined underwriting per [Part III, Chapter 18: Choice Refinance Loans](#).

Synonyms

- Choice Refinance Loans

Commitment Date Date a Commitment is confirmed by Fannie Mae per [Part IV, Chapter 2: Rate Lock and Committing, Section 204: Commitments](#).

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

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 Borrower's 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

D

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

DocWay

Business-to-business electronic documentation delivery application, or any successor system.

DUS

Delegated Underwriting and Servicing

DUS Gateway

Multifamily pre-acquisition system, or any successor systems, recording deal registration, Pre-Review and/or waiver tracking, Mortgage Loan Commitments, and decision records.

G



Guarantor Key Principal or other Person executing a

- Payment Guaranty,
- Non-Recourse Guaranty, or
- any other Mortgage Loan guaranty.

Synonyms

- Guarantors

H

HPB High Performance Building

L

Loan Documents All Fannie Mae-approved documents evidencing, securing, or guaranteeing the Mortgage Loan.

Synonyms

- Loan Document
- Mortgage Loan Document
- Mortgage Loan Documents

M

Maturity Date Date all Mortgage Loan amounts become fully due and payable per the Loan Documents.

Synonyms

- Maturity Dates

MBA Mortgage Bankers Association

Synonyms

- MBA's

Moderate Rehabilitation Property Property that will undergo at least \$8,000 per unit of Rehabilitation Work.

Synonyms

- Moderate Rehabilitation



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

P

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

PCA Report Property Condition Assessment Report documenting the findings of a PCA.



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

R

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.

Replacement Reserve

Custodial Account the Borrower funds during the Mortgage Loan term for Replacements.

Synonyms

- Replacement Reserves

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

S



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

U

Underwriting Value

Value of the Property determined by the Lender to size the Mortgage Loan per [Part II, Chapter 2: Valuation and Income, Section 202: Appraisal and Valuation](#).