



# Multifamily Selling and Servicing Guide

Effective as of August 1, 2019

No portion of this Multifamily Selling and Servicing Guide may be reproduced in any form or by any means without Fannie Mae's prior written permission, except as may be provided herein or unless otherwise permitted by law. Limited permission to reproduce this Multifamily Selling and Servicing Guide in print, in whole or in part, and limited permission to distribute electronically parts of this Multifamily Selling and Servicing Guide, are granted to Fannie Mae-approved Lenders strictly for their own use in originating and selling multifamily Mortgage Loans to, and servicing multifamily Mortgage Loans for, Fannie Mae. Fannie Mae may revoke this limited permission by sending 60 days advance written notice to any or all Fannie Mae-approved Lenders.



## TABLE OF CONTENTS

---

Part II Chapter 4 Inspections and Reserves .....	3
Section 401 Site Inspection .....	3
Section 402 Property Condition Assessment (PCA) .....	3
402.01 When to Perform a PCA .....	3
402.02 Date of PCA Report and PCA Site Visit .....	3
402.03 Conducting the PCA .....	3
Section 403 Completion/Repairs .....	4
403.01 Property Evaluation .....	4
403.02 Completion/Repairs Funding .....	6
403.03 Life Safety Issues .....	6
403.04 Verifying Completion/Repairs .....	7
Section 404 Replacement Reserve .....	7
404.01 Determining Replacement Reserve .....	7
404.02 Replacement Reserve Funding .....	7
404.03 Alternative Replacement Reserve Funding .....	8
Section 405 Escrow Requirements for Taxes and Insurance .....	9
405.01 Escrows .....	9
405.02 Real Estate Tax Escrow Funding .....	9
405.03 Insurance Escrow Funding .....	9
GLOSSARY .....	10



## Chapter 4 Inspections and Reserves

### Section 401 Site Inspection

---

#### Requirements

Before the Commitment Date, you must ensure:

- a physical inspection of the Property is performed; and
- the MBA Master Inspection Form is completed.

### Section 402 Property Condition Assessment (PCA)

---

#### 402.01 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](#).

#### 402.02 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.

#### 402.03 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 403 Completion/Repairs

### 403.01 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 Agreement 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 Agreement as outlined below.

Type of item...	Complete as follows...
For items identified as life safety repairs in the PCA	Comply with <a href="#">Part II, Chapter 4: Inspections and Reserves, Section 403.03: Life Safety Issues</a> .
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 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.
For capital improvements that are <ul style="list-style-type: none"> <li>• to be made by the Borrower in addition to those included on the PCA, and</li> <li>• are included in the Appraisal opinion of the market value of the Property on an as completed basis</li> </ul>	Comply with <a href="#">Part II, Chapter 2: Valuation and Income, Section 201.02C: Appraised Value</a> .



Type of item...	Complete as follows...
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.

### 403.02 Completion/Repairs Funding

#### Requirements

When full or partial funding of the Completion/Repair Escrow is required, you must use a Completion/Repair Agreement.

#### 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.

### 403.03 Life Safety Issues

#### Requirements

You must ensure that all life safety repairs and remediation work for code violations are

- included in the Completion/Repair Agreement, and
- completed
  - within 60 days after the Mortgage Loan Origination Date, for an



acquisition, 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.

## 403.04 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 404 Replacement Reserve

### 404.01 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 in the Completion/Repair Agreement.



## 404.02 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.

## 404.03 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 405 Escrow Requirements for Taxes and Insurance

### 405.01 Escrows

#### Requirements

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

### 405.02 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.

### 405.03 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 as to the market value of the Property as of a specific date, supported by the presentation and analysis of relevant market information.

**Synonyms**

- Appraisals

**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

**Commitment Date** Date a Commitment is confirmed by Fannie Mae as described in [Part IV A, Chapter 3: Committing](#).



## 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

## **H**

### HPB

High Performance Building

## **L**

### Loan Documents

All documents evidencing, securing, or guaranteeing the debt obligation executed for a Mortgage Loan and approved by Fannie Mae.

### **Synonyms**

- Loan Document
- Mortgage Loan Document
- Mortgage Loan Documents



## M

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

**Synonyms**

- Maturity Dates

**MBA** Mortgage Bankers Association

**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 Origination Date** Date the Lender funds a Mortgage Loan to the Borrower.

**Synonyms**

- Mortgage Loan's Origination Date
- Origination Date

**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.

## 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 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

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 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 Schedule

The Required Replacement Schedule to the Multifamily Loan Agreement ([Form 6001 series](#)) a Replacement Reserve and Security Agreement (Form 4506), or another agreement approved by Fannie Mae, that evidences:

- the Borrower's agreement to undertake identified replacement of capital items and required maintenance;
- the terms for funding such replacement of capital items and maintenance; and
- the disbursement of funds from the Replacement Reserve.

### **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 201: Market and Valuation](#).