



Fannie Mae®

Multifamily Selling and Servicing Guide

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Chapter 4

Lease Audits, Inspections, and Reserves

Section 401

Lease Audit

401.01 Generally

Requirements

Before the Commitment Date, you must:

- complete a thorough lease audit to reconcile the rent roll with the Property's signed leases; and
- comply with the following table.

Lease Audit Review	
For Properties with...	You must review at least...
5 - 9 units	all available leases.
10 - 100 units	the greater of <ul style="list-style-type: none">• 5 units or• 10% of all leases.
101 - 300 units	10% of all leases.
301 - 900 units	40 leases.
901+ units	50 leases.

When auditing the leases, you must:

- analyze the entire tenant file, including, whenever available
 - identification records,
 - verification of employment and income, and
 - credit verifications;
- audit leases for all inspected units;
- include new and recently renewed leases to verify rent trends;
- increase the number of leases reviewed if you find
 - material discrepancies, or



- lack of adequate documentation in the files;
- document your results in a lease audit form; and
- summarize the results in your Transaction Approval Memo, including any documents that were unavailable for review, and why.

If the management company engages a third party to review and approve the tenant qualification documents, you must:

- review the documents; and
- explain your rationale in the Transaction Approval Memo if any documents are unavailable for review (e.g., a national tenant qualification firm completed and documented the review, etc.).

401.02 Lease Audit Notification

Requirements

Before the inspection, you must email the Borrower and management company:

- specifying the minimum lease audit requirements; and
- requesting full records access to ensure your ability to perform additional due diligence for any identified critical issues.

401.03 Validating Rent Collections, Bad Debt, and Secondary Income

Requirements

When validating rent collections, you must:

- review 1 of the following:
 - a cash ledger;
 - receipts journal;
 - at least 3 months of bank statements confirming the rent deposits; or
 - similar documents;
- meet with the site manager to obtain and discuss:
 - an accounts receivable report; or
 - past rent due report;
- compile a lease audit form or record to validate the lease terms against



the Property's rent roll; and

- document your findings in the Transaction Approval Memo.

You must use the Appraisal, other comparable Property information, or third-party data sources to validate secondary income related to:

- ratio utility billing system (RUBS);
- cable;
- laundry;
- parking; or
- any other tenant income.

Guidance

You should confirm the management company uses:

- acceptable practices for day-to-day operations; and
- industry-standard software systems to generate detailed reports.

You may obtain sample management company reports, such as

- rent rolls,
- operating statements,
- operating budgets,
- capital improvement plans, and
- marketing.

Section 402

Site Inspections

402.01 Physical Inspections

402.01A Generally

Requirements

You must:

- before the Commitment Date, ensure your qualified employee per [Part V, Chapter 5: Surveillance, Section 502.05A: Qualifications](#):
 - performs a physical Property inspection;
 - confirms the status of all units selected for inspection below (e.g.,



whether occupied or vacant), per a current rent roll;

- completes the MBA Standard Inspection Form using their own photos; and
- compares the consistency of their photos with the
 - PCA, and
 - Appraisal;
- confirm the MBA Standard Inspection Form is accurate and complete; and
- not Deliver any Mortgage Loan with a Property Condition Rating of 4 or 5.

Guidance

You may allow the PCA Consultant to complete the General Information tab of the MBA Standard Inspection Form.

402.01B Selecting Units

Requirements

To determine the minimum number of units to inspect, you must:

- use the Physical Property Inspection table; and
- increase the number by 25% if some units are not accessible.

Physical Property Inspection	
For Properties with...	You must inspect at least...
5 - 9 units	all available units.
10 - 100 units	the greater of <ul style="list-style-type: none">• 5 units or• 10% of all units.
101 - 300 units	10% of all units.
301 - 900 units	40 units.
901+ units	50 units.

When choosing which units to inspect, you must:



- randomly select floors and units;
- include:
 - all unit types and as many different floors as possible;
 - units from all buildings;
 - all units vacant for more than 90 days, unless the Property is a Near Stabilized Property;
 - all down units (i.e., units that cannot currently be rented in the normal course of business); and
 - any additional units you deem appropriate based on
 - Property type,
 - other factors, or
 - the results of your initial inspection.

402.01C Inspection Notification

Requirements

Before the inspection, you must email the Borrower and management company to:

- request access to units selected for inspection; and
- notify them that, if any selected units are unavailable, an additional 25% of the units required to be sampled per Part II, Chapter 4: Lease Audits, Inspections, and Reserves, Section 402.01B: Selecting Units must be inspected (e.g., for a 500 unit building requiring 40 units to be inspected, if selected units are unavailable, an additional 10 units must be inspected).

402.02 Capital Item Replacements

Requirements

For replacement of capital items, you must:

- for refinances, obtain:
 - an itemized list of capital items completed within the last 24 months; and
 - for any capital item replacements you cannot independently confirm were completed, the invoices showing the associated actual costs;



- use best efforts to obtain the PCA Consultant's written confirmation that capital items were completed;
- evaluate the Property's actual condition, considering:
 - the list of capital items reportedly completed within the last 24 months; and
 - their associated actual costs;
- confirm with the Appraiser that the actual cost of capital items completed within the last 12 months was factored into the Appraised Value; and
- document your analysis in the Transaction Approval Memo.

Transaction Approval Memo Documentation	
For...	You must document the...
Interior Unit Renovations	<ul style="list-style-type: none">• specific scope, and• estimated percentage of units updated.
Replacements of capital items for refinances	<ul style="list-style-type: none">• work has been completed based on:<ul style="list-style-type: none">- an inspection by<ul style="list-style-type: none">▪ you, or▪ the PCA Consultant, or- invoices or documentation; or• if the work completed cannot be verified, request invoices or other documentation to confirm its completion.

Section 403

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:
 - is newly constructed (built within 2 years before the Commitment Date); or
 - had a Property Condition 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 404

Property Condition Assessment (PCA)

404.01 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 13: Supplemental Mortgage Loans, Section 1302.05: 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 310: Compliance.

404.02 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.

404.03 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 405

Completion/Repairs

405.01 Property Evaluation

Requirements



You must:

- assess the
 - Property's physical condition,
 - Borrower's financial condition, and
 - life safety Completion/Repairs;
- aggregate all Completion/Repairs expenses with the cost of all other Rehabilitation Work to determine if [Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans](#) also applies;
- include in the Completion/Repair Schedule:
 - 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 the Property's "as completed" market value; and
- ensure the Borrower completes the repairs and improvements identified on the Completion/Repair Schedule:
 - per the Completion/Repairs Timing table; and
 - assess any code violations and include them in the relevant category.

Completion/Repairs Timing	
For...	You must...
Life safety repairs in the PCA	Comply with Part II, Chapter 4: Lease Audits, Inspections, and Reserves, Section 405.03: Life Safety Issues .



Completion/Repairs Timing	
For...	You must...
Critical repairs in the PCA	Complete within 6 months after the Mortgage Loan Origination Date, or sooner if recommended by the PCA Consultant.
Repairs in the PCA required to: <ul style="list-style-type: none">• comply with<ul style="list-style-type: none">- the Americans With Disabilities Act, or- Fair Housing; or• resolve code violations	<ul style="list-style-type: none">• categorize as a critical repair; and• complete within 6 months after the Mortgage Loan Origination Date, or sooner if<ul style="list-style-type: none">- recommended by the PCA Consultant, or- required per applicable<ul style="list-style-type: none">▪ laws,▪ ordinances, or▪ building codes.
Deferred maintenance or items of note in the PCA	Complete within 12 months after the Mortgage Loan Origination Date, or sooner if recommended by the PCA Consultant.
Short-term replacement of capital items in the PCA	Complete by the specific date recommended by the PCA Consultant, but may be longer than 12 months after the Mortgage Loan Origination Date.
Capital improvements that <ul style="list-style-type: none">• will be completed by the Borrower in addition to those in the PCA, and• are included in the Appraisal's "as completed" market value	Comply with Part II, Chapter 2: Valuation and Income, Section 202.03A: Appraised Value .
Completion/Repairs in the PCA that require compliance with Part III, Chapter 3 for a Moderate Rehabilitation Property	Comply with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans .



Completion/Repairs Timing	
For...	You must...
All other Rehabilitation Work not identified as a Completion/Repair in the PCA	Comply with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans.

405.02 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.

405.03 Life Safety Issues

Requirements

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.



405.04 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 406 Replacement Reserve

406.01 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.

To determine the minimum amount of the Replacement Reserve, you must:

- obtain a PCA ([Form 4099](#)); and
- 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.

406.02 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 refinances, or
- 6% of the Property's Underwriting Value for Acquisitions.

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.

406.03 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 407

Escrow Requirements for Taxes and Insurance

407.01 Escrows

Requirements

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

407.02 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.

407.03 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

Acquisition

Any Purchase of either the:

- Property's fee simple or leasehold interest via a deed transfer; or
- Controlling Interest in the Borrower.

Synonyms

- Acquisitions

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 by, or on behalf of, the Borrower. The following are not Brokered Transactions, even when a referral or other similar fee is paid or received:

- you use an investment sale broker retained solely to assist in selling a Portfolio Mortgage Loan Property that is not being refinanced with Fannie Mae;
- the third party is another multifamily Lender;
- the third party continues receiving ongoing referral or other similar fees after the Mortgage Loan Origination Date for subsequent Mortgage Loans originated by you with that same Sponsor and with which the third party is not involved; or
- the third party owns more than 5% of your total equity.

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.
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Synonyms

- Guarantors

H

HPB	High Performance Building
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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.
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Synonyms

- Leases



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

N

Near Stabilized Property

Newly constructed or recently rehabilitated Property, with all construction or rehabilitation complete, which is expected to achieve Stabilized Residential Occupancy and the applicable required Underwritten Debt Service Coverage Ratio within 120 days after the Mortgage Loan Origination Date.

P

PCA Consultant

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

Synonyms

- PCA Consultant's

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

Property Condition Rating An assessment of the Property's overall condition per the MBA Standard Inspection Form, expressed on a scale from 1 (the best Property Condition Rating) to 5 (lowest Property Condition Rating).

Synonyms

- Property Condition Ratings

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

Replacements

Capital item replacements and major maintenance needs identified by the Property Condition Assessment or otherwise required.

Synonyms

- Replacement

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](#).