Fannie Mae®

Multifamily Selling and Servicing Guide

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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 Propertys 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 • 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 Propertys 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.

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

B

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

C

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

G



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

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

P

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