

# Multifamily Selling and Servicing Guide

Effective as of December 1, 2025

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Effective: 12/01/2025



#### **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	
	• 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;

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- 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

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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.

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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 Date**

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

# 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.

Effective: 12/01/2025

# 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).

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# **Synonyms**

- Properties
- Property's