Fannie Mae®

Multifamily Selling and Servicing Guide

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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.

Glossary

B

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

C

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

M

Maturity Date	Date all Mortgage Loan amounts become fully due and payable per the Loan Documents. **Synonyms** • Maturity Dates

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

P

Property Condition Assessment	Assessment of the Property's physical condition and historical operation. **Synonyms** • PCA • PNA • Physical Needs Assessment • PCAs

R

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