



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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## 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.



# Glossary

## B

**Borrower** Person who is the obligor per the Note.

**Synonyms**

- Borrowers
- Borrower's

## C

**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

## L

**Loan Documents** All Fannie Mae-approved documents evidencing, securing, or guaranteeing the Mortgage Loan.

**Synonyms**

- Loan Document
- Mortgage Loan Document
- Mortgage Loan Documents

## M



## 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

## **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

## **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

## 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](#).