



Multifamily Selling and Servicing Guide

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Section 704 Subordinate Financing

704.01 Interest Rate and Payments

Requirements

You must ensure that the subordinate loan has:

- a fixed rate;
- interest payable on a current basis; and
- no deferrals, except as described in this Section.

704.02 Loan Term

Requirements

A fully amortizing subordinate loan may mature at any time regardless of the:

- Maturity Date of the Mortgage Loan or any Pre-Existing Mortgage Loans; or
- expiration date of the Fannie Mae Credit Enhancement Instrument.

You must ensure that any subordinate loan that does not fully amortize, including any Soft Financing, does not mature before 90 days after the earlier of the:

- final Maturity Date of the Mortgage Loan or any Pre-Existing Mortgage Loans; or
- expiration date of the Fannie Mae Credit Enhancement Instrument for the Mortgage Loan or any Pre-Existing Mortgage Loans.

704.03 Collateral

Guidance

You may secure the subordinate loan with a Lien on the Property if:

- the Lien is subordinated to the Lien of the Security Instrument per Sections 704.08 - 704.11 of this Chapter; and
- the granting clause of the security instrument creating the subordinate Lien is the same as that of the Security Instrument.



704.04 Credit Support

Requirements

You must ensure that the Mortgage Loan secured by the MAH Property obtains the same credit support and collateral as any subordinate loan, including any

- recourse to the Borrower or third-party Guarantor, or
- additional collateral.

704.05 Soft Financing

Requirements

To be considered Soft Financing, subordinate debt must have all of the following:

- P&I payments made only from the surplus NCF remaining after all other payments (due and owing) are made on Pre-Existing Mortgage Loans;
- unpaid interest that either
 - does not accrue, or
 - accrues, but can only be satisfied from the surplus NCF;
- agreement from the subordinate Lender to execute a Subordination Agreement with any future first Lien Lender that refinances any UPB on the Mortgage Loan secured by the MAH Property;
- the Borrower's failure to make an interest or principal payment due to a lack of surplus NCF is not considered a default under the Soft Financing subordinate debt; and
- the Borrower retains a minimum 25% equity share in the surplus NCF unless
 - the Property has LIHTC,
 - the Soft Financing Note is payable to the developer, and
 - the developer (or entities related to the developer) owns or controls more than 50% of the general partner (or equivalent managing) interest of the Borrower.

Guidance

Soft Financing may also include:

- a Loan term significantly longer than the term of the Mortgage Loan, with



the subordinate loan either

- being forgiven over time or at the maturity date of the Soft Financing, or
- due only upon the sale of the Property;
- a nominal interest rate (e.g., 1% or 2%); or
- principal payments on the Soft Financing that do not fully amortize the subordinate debt over its term.

704.06 Subordinate Lender

Requirements

If the Lender type is...	Then...
Public / Quasi-Public / Not-for-Profit Lender	A subordinate loan provided by a public, quasi-public, or not-for-profit Lender may <ul style="list-style-type: none">• be Soft Financing, or• require mandatory payments of P&I, or interest-only.
Private Lender	You must ensure that any subordinate financing originated by a private, for-profit Lender is Soft Financing per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.05: Soft Financing .

704.07 Developer's Notes

Requirements

You must ensure that the Borrower only secures a commitment to repay developer advances or unpaid development costs with the proceeds of a mortgage loan secured by the Property if the subordinate financing is Soft Financing per [Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.05: Soft Financing](#).

704.08 Subordination Agreement

Requirements

You, the Borrower, and the subordinate Lender must enter into either:

- Fannie Mae form Subordination Agreement (Affordable) ([Form 6456](#)), if



the subordinate Lender is a government entity; or

- Fannie Mae form Subordination Agreement (Conventional) (Form 6414), if the subordinate Lender is not a government entity.

704.09 Lien Priority and Title Insurance Policy

Requirements

You must ensure that:

- The Lien securing the subordinate loan remains, at all times, subordinate to the Lien of the Security Instrument securing the Pre-Existing Mortgage Loans or Credit Enhancement Mortgage Loan, including any refinancing of the Pre-Existing Mortgage Loans.
- The Subordination Agreement is recorded in the land records immediately after the subordinate security instrument is recorded.
- The title insurance policy reflects the recordation of the Subordination Agreement.

704.10 Form of Subordinate Loan Documents

Requirements

You must confirm that the subordinate loan documents:

- comply with this Chapter;
- include the specific provisions required by the Subordination Agreement;
- do not require the Borrower to maximize rents at the Property (even if the Property is subject to an Affordable Regulatory Agreement); and
- are not in the form of subordinate Bonds.

704.11 Prepayment

Requirements

The Borrower may not prepay or redeem the subordinate loan without Fannie Mae's consent.



Glossary

A

Affordable Regulatory Agreement

Regulatory, land use, extended use, or similar agreement or recorded restriction limiting rents, imposing maximum income restrictions on tenants, or placing other affordability restrictions on the use or occupancy of the Property (whether imposed by a government entity or self-imposed by a Borrower).

B

Bonds

Tax-exempt or taxable multifamily revenue bonds, or other tax-exempt or taxable bonds, issued to finance 1 or more Credit Enhancement Mortgage Loan Properties.

Synonyms

- Bond

Borrower

Person who is the obligor under the Note.

Synonyms

- Borrowers
- Borrower's

C

Credit Enhancement Instrument

Agreement between Fannie Mae and a Bond Trustee where Fannie Mae provides credit enhancement of a Credit Enhancement Mortgage Loan, Bonds issued to finance a Credit Enhancement Mortgage Loan, or an Interest Rate Hedge Agreement; and if applicable, a Bond liquidity facility.

Synonyms

- Credit Enhancement Instruments



Credit Enhancement
Mortgage Loan

Mortgage Loan underwritten and serviced by the Lender and financed by the issuance of Bonds where Fannie Mae is providing a Credit Enhancement Instrument.

Synonyms

- Credit Enhancement Mortgage Loans

G

Guarantor

Key Principal or other Person who executes a Payment Guaranty, a Non-Recourse Guaranty, or any other guaranty in connection with the Mortgage Loan.

Synonyms

- Guarantors

L

Lender

Person approved by Fannie Mae to sell or service Mortgage Loans.

Synonyms

- Lenders
- Lender's

Lien

Lien, mortgage, bond interest, pledge, security interest, charge, or encumbrance of any kind.

Synonyms

- Liens

M

Maturity Date

Date all amounts due and owing under the Mortgage Loan 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

N

Note Current instrument evidencing a Mortgage Loan obligation, including [Form 6010 series](#), any other note approved by Fannie Mae, and all applicable addenda, schedules, and exhibits.

Synonyms

- Notes

P

P&I Principal and interest

Property Multifamily residential property securing the Mortgage Loan and including the land (or Leasehold interest in land), Improvements, and personal property (as defined in the Uniform Commercial Code).

Synonyms

- Properties
- Property's

S

Security Instrument Instrument creating a lien or encumbrance on 1 or more Properties and securing the obligations under the Loan Documents.

U

UPB Unpaid Principal Balance