



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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## Section 704 Subordinate Financing

### 704.01 Interest Rate and Payments

#### Requirements

You must ensure any subordinate loan:

- has a fixed rate; and
- any non-Soft Financing has:
  - interest payable on a current basis; and
  - no deferrals or accruals.

### 704.02 Loan Term

#### Requirements

You must ensure any non-fully amortizing subordinate loan, including any Soft Financing, matures at least 180 days after the Maturity Date of the Mortgage Loan and any Pre-Existing Mortgage Loans.

#### Guidance

A fully amortizing subordinate loan may mature at any time regardless of the Mortgage Loan Maturity Date. A subordinate loan may also be fully or partially forgiven at any time per its loan documents.

### 704.03 Collateral and Credit Support

#### Requirements

You must ensure the Mortgage Loan obtains the same credit support and collateral as any subordinate loan, including any

- recourse to the Borrower or any guarantor, or
- additional collateral.

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

- is subordinated to the Security Instrument's Lien per
  - [Part III, Chapter 7: Multifamily Affordable Housing Properties](#),



Section 704.07: Subordination Agreement,

- Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.08: Lien Priority and Title Insurance Policy, and
- Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.09: Form of Subordinate Loan Documents; and
- includes only the same collateral covered by the Mortgage Loan's Security Instrument.

## 704.04 Soft Financing

### Requirements

Provision	To be considered Soft Financing...
Financing Terms	Subordinate loan terms must comply with <a href="#">Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704: Subordinate Financing</a> .
Payments	<ul style="list-style-type: none"><li>• Any subordinate loan payments due during the Mortgage Loan term, including any fees, must be payable only from the surplus NCF remaining after all other payments (due and owing) are made on the Mortgage Loan or any Pre-Existing Mortgage Loans.</li><li>• No more than 75% of the surplus NCF must be available for payments on all Soft Financing unless the note is payable to the Sponsor or an Affiliate.</li></ul>
Events of Default	Failure to pay principal and/or interest due to lack of surplus NCF must not be an event of default.
Subordination	Subordination must comply with <a href="#">Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.07: Subordination Agreement</a> .

### Guidance

Soft Financing may have:

- a nominal interest rate (e.g., 1% or 2%);
- interest that does not accrue;
- principal payments that do not fully amortize the subordinate loan over its term; or
- a loan term significantly longer than the Mortgage Loan term, with the



subordinate loan either

- being forgiven over time or at its maturity date, or
- due only upon the sale of the Property.

#### 704.05 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"><li>• be Soft Financing, or</li><li>• require mandatory payments of P&amp;I, or interest-only.</li></ul>
Private Lender	You must ensure that any subordinate financing originated by a private, for-profit Lender is Soft Financing per <a href="#">Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.04: Soft Financing</a> .

#### 704.06 Developer's Notes

##### Requirements

You must ensure any developer note or advance due the Sponsor or an Affiliate is Soft Financing per [Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.04: Soft Financing](#).

#### 704.07 Subordination Agreement

##### Requirements

For all subordinate financing, including Soft Financing, 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.



## 704.08 Lien Priority and Title Insurance Policy

### Requirements

You must ensure:

- The subordinate loan, along with any Lien securing the subordinate loan, remains at all times, subordinate to the Security Instrument's Lien, including any refinancing.
- The Subordination Agreement is recorded in the land records immediately after the subordinate security instrument is recorded.
- The lender's title insurance policy reflects the recordation of the Subordination Agreement.

## 704.09 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; and
- do not require the Borrower to maximize rents at the Property (even if the Property is subject to an Affordable Regulatory Agreement).

## 704.10 Prepayment

### Requirements

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

## 704.11 LIHTC Equity Bridge Loans

### Requirements

LIHTC Equity Bridge Loan	Requirements
Lender Eligibility	The LIHTC equity bridge lender must not be on ACheck.



LIHTC Equity Bridge Loan	Requirements
Repayment	Must be completely repaid on or before the final LIHTC equity payment associated with the Property's placed-in-service date.
Amount	Maximum of 80% of aggregate LIHTC equity contribution.
Funding Conditions	No performance hurdles or Property performance benchmarks tied to bridge loan payments.
Note	<ul style="list-style-type: none"> <li>• Non-recourse to Borrower.</li> <li>• Fixed or variable rate.</li> </ul>
Guaranty (Repayment or Completion)	Must be subordinated to any Guaranty in favor of Fannie Mae.

Bridge Loan Collateral Types (multiple types allowed)	Bridge Lender Affiliated with You or LIHTC Investor	Bridge Lender Unaffiliated with You, LIHTC Investor, or Sponsor	Bridge Lender Affiliated with Sponsor
Assignment of Rights to Capital Contribution from LIHTC Equity Investor	Acceptable	Acceptable	Unacceptable
Assignment of Development Fee	Acceptable	Acceptable	Acceptable
Subordinate Security Instrument	Unacceptable	Unacceptable	Unacceptable



Bridge Loan Collateral Types (multiple types allowed)	Bridge Lender Affiliated with You or LIHTC Investor	Bridge Lender Unaffiliated with You, LIHTC Investor, or Sponsor	Bridge Lender Affiliated with Sponsor
Assignment of General or Limited Partnership Interests	Acceptable if Bridge Lender has LIHTC experience	Acceptable if Bridge Lender has LIHTC experience	<ul style="list-style-type: none"> <li>• Acceptable for general partnership Interests</li> <li>• Unacceptable for limited partnership Interests</li> </ul>
Subordination Agreement	Conventional Form	Conventional Form	Affordable Form





## Glossary

### A

#### ACheck

Lender due diligence performed for the Borrower, Key Principal, and Principal using the ACheck application.

#### **Synonyms**

- Applicant Experience Check

#### Affiliate

When referring to an affiliate of a Lender, any other Person or entity that Controls, is Controlled by, or is under common Control with, the Lender.

When referring to an affiliate of a Borrower or Key Principal:

- any Person that owns any direct ownership interest in Borrower or Key Principal;
- any Person that indirectly owns, with the power to vote, 20% or more of the ownership interests in Borrower or Key Principal;
- any Person Controlled by, under common Control with, or which Controls, Borrower or Key Principal;
- any entity in which Borrower or Key Principal directly or indirectly owns, with the power to vote, 20% or more of the ownership interests in such entity; or
- any other individual that is related (to the third degree of consanguinity) by blood or marriage to Borrower or Key Principal.

#### **Synonyms**

- Affiliates
- Affiliate's

#### 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 per the Sponsor-Initiated Affordability Agreement (Form 6490)).



<b>B</b>	
Borrower	Person who is the obligor per the Note.  <b>Synonyms</b> <ul style="list-style-type: none"><li>• Borrowers</li><li>• Borrower's</li></ul>
<b>C</b>	
Collateral	Property, Personal Property, or other property securing a Mortgage Loan.
<b>G</b>	
Guaranty	Payment Guaranty, Non-Recourse Guaranty, or other guaranty by a Guarantor for the Mortgage Loan.
<b>I</b>	
Investor	MBS Investor for an MBS Mortgage Loan, or Fannie Mae for a Cash Mortgage Loan.  <b>Synonyms</b> <ul style="list-style-type: none"><li>• Investors</li><li>• Investor's</li></ul>
<b>L</b>	
Lender	Person Fannie Mae approved to sell or service Mortgage Loans.  <b>Synonyms</b> <ul style="list-style-type: none"><li>• Lenders</li><li>• Lender's</li></ul>



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

**Synonyms**

- Liens

## 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

## N

**Note** Instrument evidencing a Mortgage Loan obligation, including

- [Form 6010 series](#),
- any other Fannie Mae-approved note, and
- all applicable
  - addenda,
  - schedules, and
  - exhibits.

**Synonyms**

- Notes

## P



P&I Principal and interest

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

**S**

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

**Synonyms**

- Security Instruments
- Security Instrument's

Sponsor Principal equity owner and/or primary decision maker of the Borrower (often the Key Principal or the Person Controlling the Key Principal).

**Synonyms**

- Sponsors
- Sponsor's

Subordinate Loan Multifamily residential real estate loan secured by a Lien against the Property having a lesser priority than the Lien securing another multifamily residential real estate loan on the same Property.

**Synonyms**

- Subordinate Loans