



# Multifamily Selling and Servicing Guide

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## 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.



# Glossary

## B

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

**Synonyms**

- Borrowers
- Borrower's

## 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

**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

**U**

UPB Unpaid Principal Balance