Fannie Mae®

Multifamily Selling and Servicing Guide

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Chapter 15 Mezzanine Financing; Preferred Equity and Structured Common Equity

Section 1501 Mezzanine Financing

1501.01 Description

☑ Requirements

A Mortgage Loan with Mezzanine Financing is permitted only if

- the Mezzanine Financing is originated by an approved DUS Lender Affiliate (DLA Mezzanine Financing), or
- Fannie Mae approves the Mezzanine Financing from another source (non-DLA Mezzanine Financing) on a case-by-case basis.

Before underwriting non-DLA Mezzanine Financing, you must contact the Deal Team.

1501.01A Eligible Mortgage Loans

☑ Requirements

Mortgage Loans with Mezzanine Financing must:

- be newly originated;
- have an original principal balance of at least
  - $10 million, for DLA Mezzanine Financing, or
  - $50 million, for non-DLA Mezzanine Financing;
- be fixed rate; and
- be flagged for MBS additional disclosure per Form 4098.

1501.01B Eligible Terms

☑ Requirements

Mezzanine Financing must:

- have a fixed rate or fixed mezzanine rate of return without escalations;
- not have a maturity date, redemption date, trigger date, or require

repayment of the Mezzanine Financing during the term of the Mortgage Loan; and

- have a minimum $1 million origination balance.

1501.01C Loss Sharing

☑ Requirements

Loss sharing is required on all Mortgage Loans with Mezzanine Financing.

1501.01D Lender's Loan Application

☑ Requirements

Your loan application form must:

- require the Borrower to indicate whether it has or intends to obtain Mezzanine Financing as part of its organizational or capital structure; and
- inform the Borrower that you may delay approval or revoke any prior approval if the Borrower changes its intention to obtain Mezzanine Financing.

1501.02 Underwriting

☑ Requirements

You must comply with the following table.

Topic	Requirements
Income Projections	• Provide support for the income projections used to determine the aggregate amount of the Mortgage Loan and Mezzanine Financing. • Demonstrate that the local economics are sufficient and sustainable to support both loans.
Underwritten NCF	Use the same Underwritten NCF to determine the loan amount for • the Mortgage Loan, and • the Mezzanine Financing.

Topic	Requirements
Refinance Analysis	Prepare a refinance analysis that: • incorporates the terms of both the Mortgage Loan and the Mezzanine Financing; • demonstrates that the Borrower will - maintain a positive equity position in the Property throughout the term of the Mortgage Loan, or - have some other incentive (e.g., continuing cash flow) to remain committed to the Property and its successful operation; and • concludes that there will be sufficient cash flow, NCF growth, and residual value to pay off the Mortgage Loan and the Mezzanine Financing at maturity (as fully extended, if applicable).
Experience	Ensure that the Sponsor and each Key Principal have sufficient net worth, liquidity, and experience with the Property type and market to justify the origination of the Mortgage Loan and the Mezzanine Financing. If upgrades or rehabilitation are being financed by the Mezzanine Financing, then ensure that the Borrower, each Key Principal, and the mezzanine borrower also have • sufficient experience managing the scope of the proposed rehabilitation, and • strong property management experience in the local market.
Mezzanine Borrower Structure	Ensure the mezzanine borrower is • a newly-formed, special purpose, bankruptcy-remote limited liability company or limited partnership, • the sole owner of the Borrower, and • wholly-owned by the Principals of the Borrower.

Topic	Requirements
Appraisal	If the Mezzanine Financing is funding rehabilitation, ensure the Appraisal states the Propertys as is and as completed values.
Third-Party Reports	For Mortgage Loans with DLA Mezzanine Financing, include in the underwriting submission, on behalf of your DL Mezzanine Affiliateany: • internal or third-party inspection reports; • PCAs; and • architects or engineers reports (or other similar reports) related to the Mezzanine Financing.

Guidance

You may require a Completion Guaranty (Form 6018).

The DUS Lender Mezzanine Affiliate may also require a completion guaranty from the Mezzanine Financing borrower.

1501.03 Submission

1501.03A Materials

Operating Procedures

You must submit the following in DUS Gateway when you submit the Mortgage Loan underwriting:

- the Mezzanine Financing sizing model;
- a sources and uses of funds reflecting the Mezzanine Financing proceeds;
- any approvals associated with the Mezzanine Financing; and
- for any Mezzanine Financing that finances rehabilitation:
  - a description of the proposed rehabilitation;
  - the approved rehabilitation budget;
  - the rehabilitation timeline; and
  - the construction or rehabilitation documents.

1501.03B Data

Operating Procedures

To obtain a Commitment, you must complete the Mezzanine Financing fields in DUS Gateway.

1501.04 Intercreditor Agreement

Requirements

For each Mortgage Loan with Mezzanine Financing, you and the Mezzanine Financing lender must execute an intercreditor agreement approved by Fannie Mae.

Operating Procedures

The Borrower must pay the legal fees if Fannie Mae engages outside counsel to review any intercreditor agreements. These fees are non-refundable, and you must pay the counsel retainer when you submit the underwriting.

Guidance

You may charge the Borrower your own legal and due diligence fees.

1501.05 Servicing

Operating Procedures

You must service, report, and remit on the DLA Mezzanine Financing per Part V.

In all cases, you, as servicer of the DLA Mezzanine Financing, must promptly notify Fannie Mae of any default on the Mezzanine Financing.

Section 1502 Preferred Equity and Structured Common Equity

Requirements

For any Mortgage Loan with Preferred Equity or Structured Common Equity in the Borrowers ownership structure, you must comply with the

- Equity Checklist (Form 6441), and
- Preferred Equity Operating Procedures Job Aid.

Guidance

This Section does not apply to any Borrower organizational or capital structures relating solely to the allocation of LIHTCs.

Operating Procedures

You must submit:

- a completed Equity Checklist (Form 6441) using:
  - DUS Gateway if the Borrowers ownership structure includes any Preferred Equity or Structured Common Equity requiring Pre-Review per Form 6441; or
  - DUS DocWay with the Mortgage Loan Delivery Package in Folder II if the Borrowers ownership structure does not include Preferred Equity or Structured Common Equity requiring Pre-Review per Form 6441; and
- Multifamily Underwriting Certificate (Key Principal/Principal) (Form 6460.Key Principal) for all Preferred Equity investors identified as Principals with "Additional Principal Due Diligence Requirements" per Form 6441, with the Mortgage Loan Delivery Package in Folder II in DUS DocWay.

Glossary

A

Additional Disclosure	Information you provide that is published as an addendum to the disclosure documents when an MBS is issued and describes special Security, Mortgage Loan, or Property characteristics or terms that differ from those described in the standard Multifamily MBS Prospectus. **Synonyms** • Additional Disclosures • Special Disclosure
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

Appraisal	Written statement independently and impartially prepared by a qualified Appraiser stating an opinion of the Property's market value • as of a specific date, and • supported by the presentation and analysis of relevant market information. **Synonyms** • Appraisals • Appraisal's

B

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

C

Commitment	Contractual agreement between you and Fannie Mae where Fannie Mae agrees to buy a Mortgage Loan at a future date in exchange for an MBS, or at a specific price for a Cash Mortgage Loan, and you agree to Deliver that Mortgage Loan. **Synonyms** • Committed • Commitments

D

Delivery	Submission of all correct, accurate, and certifiable documents, data, and information with all applicable documents properly completed, executed, and recorded as needed, and any deficiencies resolved to Fannie Maes satisfaction. **Synonyms** • Deliver • Delivered • Deliveries
DocWay	Business-to-business electronic documentation delivery application, or any successor system.
DUS	Delegated Underwriting and Servicing
DUS Gateway	Multifamily pre-acquisition system, or any successor systems, recording deal registration, Pre-Review and/or waiver tracking, Mortgage Loan Commitments, and decision records.
DUS Lender	Lender approved to Deliver loans under the Delegated Underwriting and Servicing program. **Synonyms** • DL
DUS Lender Affiliate Mezzanine	Mezzanine Financing provided by an approved mezzanine lending affiliate of a DUS Lender. **Synonyms** • DLA Mezzanine Financing

F

Fannie Mae Deal Team	Team responsible for reviewing Pre-Review Mortgage Loans, waivers, etc. **Synonyms** • Deal Team

G

Guaranty	Payment Guaranty, Non-Recourse Guaranty, or other guaranty by a Guarantor for the Mortgage Loan.
Guide	Multifamily Selling and Servicing Guide controlling all Lender and Servicer requirements unless a Lender Contract specifies otherwise. **Synonyms** • DUS Guide

I

Investor	MBS Investor for an MBS Mortgage Loan, or Fannie Mae for a Cash Mortgage Loan. **Synonyms** • Investors • Investor's

K

Key Principal	Person who • controls and/or manages the Borrower or the Property, • is critical to the successful operation and management of the Borrower and the Property, and/or • may be required to provide a Guaranty. **Synonyms** • Key Principals • Key Principal's

L

Lender	Person Fannie Mae approved to sell or service Mortgage Loans. **Synonyms** • Lenders • Lender's
Lender Affiliate	Other Person or entity that Controls, is Controlled by, or is under common Control with, the Lender.
Low-Income Housing Tax Credit	Federal program offering tax credits to owners of eligible properties that contain low-income occupants and rent restrictions. **Synonyms** • Low-Income Housing Tax Credits • Low Income Housing Tax Credits • LIHTC • LIHTCs

M

Maturity Date	Date all Mortgage Loan amounts become fully due and payable per the Loan Documents. **Synonyms** • Maturity Dates
MBS	Mortgage-Backed Security
Mezzanine Financing	Subordinate debt financing provided to a direct or indirect owner of a Borrower that is secured by a pledge of the direct or indirect equity interest in the Borrower held by the owner, and not by a Lien on the Property.

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 Delivery Package	Loan Documents and underwriting material required in connection with the Delivery of a Mortgage Loan.
Multifamily Underwriting Certificate	Multifamily Underwriting Certificate (Form 6460 series) , and/or other agreement approved by Fannie Mae that provides underwriting information for a Mortgage Loan.

N

Net Cash Flow	At underwriting or for any specified period, the amount calculated per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis and the applicable products and features in Part III. **Synonyms** • NCF

P

Pre-Review	Requirement that you obtain Fannie Maes approval before you Rate Lock a Mortgage Loan.

Preferred Equity	A direct or indirect investment in the Borrower, for which the organizational documents provide that equity investor with: • an asset management fee or other fee before dividends, distributions, payments, or returns are paid to the investors; or • preferred or unequal rights to receive dividends, distributions, payments, or returns relative to other equity owners, but excluding: - an equity investment made solely for the allocation of LIHTCs; or - preferred dividends, distributions, payments, or returns paid to: ▪ a REIT Equity Investor from Excess Net Cash Flow; or ▪ an equity investor in the form of • payments or a promote return after pari passu payments are made to all equity investors based on a specified minimum internal rate of return or return threshold; or • repayment of a protective advance to pay debt service or other amounts due under the Loan Documents, or any other amounts reasonably required for the operation and maintenance of the Property.
Principal	Person who owns or controls, in the aggregate, directly or indirectly (together with that Person's Immediate Family Members, if an individual), specified interests in the Borrower per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 303: Key Principals, Principals, and Guarantors. **Synonyms** • Principals

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

S

Servicer	Primary Person servicing the Mortgage Loan, including • the originator, • seller, or • a third party. **Synonyms** • Servicers • Servicer'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

Structured Common Equity	Equity interests in the Borrower's organizational structure (not including Preferred Equity) where the investor has: • Forced Sale rights; or • Control Takeover rights.