



Multifamily Selling and Servicing Guide

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Section 1601 Mezzanine Financing

1601.01 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.

1601.01A 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](#).

1601.01B 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.



1601.01C Loss Sharing

Requirements

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

1601.01D 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.

1601.02 Underwriting

Requirements

You must comply with the following table.

Topic	Requirements
Income Projections	<ul style="list-style-type: none">• 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	<p>Use the same Underwritten NCF to determine the loan amount for</p> <ul style="list-style-type: none">• the Mortgage Loan, and• the Mezzanine Financing.



Topic	Requirements
Refinance Analysis	<p>Prepare a refinance analysis that:</p> <ul style="list-style-type: none"> • incorporates the terms of both the Mortgage Loan and the Mezzanine Financing; • demonstrates that the Borrower will <ul style="list-style-type: none"> - 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	<p>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.</p> <p>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</p> <ul style="list-style-type: none"> • sufficient experience managing the scope of the proposed rehabilitation, and • strong property management experience in the local market.
Mezzanine Borrower Structure	<p>Ensure the mezzanine borrower is</p> <ul style="list-style-type: none"> • 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 Property's 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 Affiliate any: <ul style="list-style-type: none">• 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.

1601.03 Submission

1601.03A 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.



1601.03B Data

Operating Procedures

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

1601.04 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.

1601.05 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.



Glossary

A

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

Appraisal

Written statement independently and impartially prepared by a qualified appraiser stating an opinion as to the market value of the Property as of a specific date, supported by the presentation and analysis of relevant market information.

Synonyms

- Appraisals

B



Borrower Person who is the obligor under the Note.

Synonyms

- Borrowers
- Borrower's

C

Commitment Contractual agreement between Fannie Mae and the Lender where Fannie Mae agrees to buy a Mortgage Loan from the Lender at a future date in exchange for an MBS, or at a specific price for a Cash Mortgage Loan, and the Lender agrees to Deliver that Mortgage Loan to Fannie Mae.

Synonyms

- Committed
- Commitments

D

DUS Delegated Underwriting and Servicing

DUS Gateway Multifamily pre-acquisition system including deal registration, Pre-Review and/or waiver tracking, decision records, or any successor systems.

DUS Lender Lender approved to Deliver loans under the Delegated Underwriting and Servicing program.

Synonyms

- DL

G

Guaranty Payment Guaranty, Non-Recourse Guaranty, or other guaranty by a Guarantor for the Mortgage Loan.

K



Key Principal Person(s) who control and/or manage the Borrower or the Property, are critical to the successful operation and management of the Borrower and the Property, and who may be required to provide a Guaranty.

Synonyms

- Key Principals

L

Lender Affiliate Other Person or entity that Controls, is Controlled by, or is under common Control with, the Lender.

M

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

P

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

Sponsor

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