

# Multifamily Selling and Servicing Guide

Effective as of April 28, 2025

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# 1602.01A Definitions

# ✓ Requirements

Preferred Equity is an equity investment in an entity where the holder is entitled to preferred dividends, distributions, payments, or returns relative to the other equity owners.

Fannie Mae defines 2 types of Preferred Equity.

Туре	Definition
Soft Preferred Equity	<ul> <li>• only requires preferred payments or returns to the holder if cash flow from the Property is sufficient to make the payments or returns after satisfying the payment, reserve, escrow, and funding obligations of the Mortgage Loan and all Property operating expenses;</li> <li>• has organizational documents that explicitly state that the preferred return may accrue if cash flow from operations is insufficient to pay the return; and</li> <li>• does not have a maturity date, redemption date, trigger date, or require repayment during the term</li> </ul>
	of the Mortgage Loan.
Hard Preferred Equity	Preferred Equity that requires preferred payments or returns to the holder, regardless of whether cash flow from the Property is sufficient to make the payments or returns.

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# **Glossary**

# 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
- Mortgage Loan's

## P

**Preferred Equity** 

A direct or indirect equity investment in an entity providing that investor with unequal rights to receive dividends, distributions, payments, or returns relative to other equity owners.

**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).

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### **Synonyms**

- Properties
- Property's