



Fannie Mae®

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# Multifamily Selling and Servicing Guide

Effective as of June 7, 2024

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## TABLE OF CONTENTS

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Part III Section 1602.01E Limitations .....	3
GLOSSARY .....	5



## 1602.01E Limitations

### Requirements

Preferred Equity must:

- not have a maturity date, redemption date, trigger date, or require repayment during the term of the Mortgage Loan;
- have a fixed rate of return without escalations during the term of the Mortgage Loan;
- not include cash flow sweeps above the stated return;
- not be cross-collateralized with multiple assets;
- for a deal that has both a Hard Preferred Equity return and Soft Preferred Equity return, be underwritten using the total combined preferred return to calculate the DSCR per Form 4660;
- not have intercreditor or recognition agreements between you and the Preferred Equity holder; all rights of the Preferred Equity holder that you recognize must be contained in the Loan Documents;
- not have side letters; all information, terms, and conditions relating to the Preferred Equity must be contained in the organizational documents; and
- for Hard Preferred Equity, not be less than \$1 million.

You must underwrite the Preferred Equity as Hard Preferred Equity, if any of the following apply:

- the organizational documents do not explicitly state that the preferred return may accrue if cash flow from operations is insufficient to pay the preferred return;
- there are remedies associated with operating benchmarks such as NCF, NOI, or other operating thresholds;
- there are reserves to ensure the payment of the preferred return; or
- the holder of Preferred Equity benefits from a
  - pledge of the general partner's or managing member's interest in the Borrower, or any direct or indirect owner of the Borrower, or
  - guaranty or indemnity from the general partner, managing member, or manager of the Borrower (or any parent or other Person Controlling any of them) with respect to the preferred payment or returns. If a guaranty or indemnity is executed by the Key Principal executing a Guaranty for the Mortgage Loan, the guaranty or indemnity of the preferred payment or returns must be expressly subordinate to the



## Guaranty for the Mortgage Loan.



# Glossary

## B

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

### **Synonyms**

- Borrowers
- Borrower's

## F

**Form 4660** Multifamily Underwriting Standards identifying Pre-Review Mortgage Loans and containing the underwriting requirements (e.g., debt service coverage ratio, loan to value ratio, interest only, underwriting floors, etc.) for all Mortgage Loans.

### **Synonyms**

- Multifamily Underwriting Standards

## G

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

## 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



## Loan Documents

All Fannie Mae-approved documents evidencing, securing, or guaranteeing the Mortgage Loan.

### **Synonyms**

- Loan Document
- Mortgage Loan Document
- Mortgage Loan Documents

## **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**

## Person

Legal person, including an

- individual,
- estate,
- trust,
- corporation,
- partnership,
- limited liability company,
- financial institution,
- joint venture,
- association, or
- other organization or entity (whether governmental or private).

### **Synonyms**

- Persons
- Person's