



Multifamily Selling and Servicing Guide

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Chapter 18 Choice Refinance Loans

Section 1801 Eligibility

Requirements

A Choice Refinance Loan is a Portfolio Mortgage Loan that is eligible for a streamlined underwriting process which reduces origination costs.

To use the Choice Refinance Loan streamlined underwriting, you must ensure:

Topic	Requirements
Prerequisites	<ul style="list-style-type: none">• You have been the Servicer of the Portfolio Mortgage Loan for the last 12 months.• The Choice Refinance Loan complies with Form 4660.• The Portfolio Mortgage Loan is not in default.• The Borrower has demonstrated a commitment to its obligations under the Portfolio Mortgage Loan by<ul style="list-style-type: none">- maintaining the Property in good physical condition,- providing competent Property management services, and- complying with the requirements under the Loan Documents.• The Property<ul style="list-style-type: none">- is operating on a stabilized basis,- has a most recent overall inspection rating of 1 or 2, and- does not show any adverse change in Property condition, except normal wear and tear, or any life safety issues during the underwriting inspection.



Topic	Requirements
Loan History	<ul style="list-style-type: none">• The Portfolio Mortgage Loan:<ul style="list-style-type: none">- has a good payment history, with no delinquencies of 60 days or more during the 3 years immediately preceding the proposed refinance;- is not on the current Fannie Mae Watchlist;- had no declared non-monetary defaults that remained uncured for more than 120 days;- was underwritten and delivered per then-applicable Guide provisions; and- is serviced per the Guide.• There were no unauthorized assumptions or changes in ownership, and no unauthorized Liens filed against the Property.
Additional Collateral	The Portfolio Mortgage Loan does not have a Letter of Credit or additional cash collateral.
Pricing	The pricing that was approved for the Portfolio Mortgage Loan does not apply to the Choice Refinance Loan.
Underwriting	The Choice Refinance Loan, regardless of the Underwritten DSCR, must be of sufficient credit quality to repay the refinanced Mortgage Loan without individually negotiated debt relief.

Section 1802 Lender Delegation

Requirements

You are delegated to underwrite the Choice Refinance Loan if:

- the Portfolio Mortgage Loan and the Choice Refinance Loan fall under the same Pre-Review categories in the Form 4660, and Fannie Mae approved those same Pre-Review categories for the Portfolio Mortgage Loan; or
- the Choice Refinance Loan falls under the Pre-Review categories in the Form 4660, and has the same structure as the Portfolio Mortgage Loan, even though the Portfolio Mortgage Loan was not a Pre-Review Mortgage Loan when it was Committed.

In addition, you are delegated to approve a Non-Contiguous Parcel structure



if the same structure was approved for the Portfolio Mortgage Loan.

Section 1803 Prepayment Premium and Origination Fees

Requirements

See [Part IV A, Chapter 2: Pricing, Origination Fees, and Prepayment Premium Incentives](#) for available reduced Prepayment Premiums and Origination Fees.

Section 1804 Streamlined Underwriting

1804.01 Zoning

Requirements

You must perform a non-conforming use analysis and comply with the requirements of [Part II, Chapter 3: Legal Compliance, Section 301: Zoning and Legal Non-Conforming Uses](#) if the Property has been rezoned since the Mortgage Loan Origination Date of the Portfolio Mortgage Loan

- causing the Property to become a non-conforming use, or
- further restricting the ability of an existing non-conforming use to be rebuilt.

1804.02 Property Condition Assessment (PCA)

Guidance

You may use the Streamlined Physical Condition Assessment Requirements ([Form 4099.A](#)).

1804.03 Environmental Site Assessment

Requirements

A Phase I Environmental Site Assessment is not required if:

- the Borrower enters into an Environmental Indemnity Agreement ([Form 6085](#));
- you perform an environmental database search per the Instructions for Performing a Multifamily Property Condition Assessment – Environmental Matters ([Form 4251](#)), and determine that there are no adverse conditions requiring further due diligence; and
- you confirm that the Borrower is appropriately implementing any existing



O&M Plans for the Property.

1804.04 Survey

Requirements

Part II, Chapter 3: Legal Compliance, Section 305: Survey does not apply if the:

- new mortgagee title insurance policy includes all title exceptions, including those that would appear based upon the most recent survey provided by the Borrower (whether it is the original survey for the Portfolio Mortgage Loan or a subsequent one);
- Borrower certifies that there have been no changes or improvements to the Property since the later of the date of the survey
 - referenced in the original title policy, or
 - most recently completed; and
- Property inspection report reveals no evidence of new construction or encroachments on the site from construction on adjoining properties.

1804.05 Borrower Structure and Experience

Requirements

You must:

- Obtain a new Multifamily Underwriting Certificate (Form 6460) from the Borrower, any Guarantor, and any Key Principal.
- Obtain updated copies of the organizational documents of the Borrower and the Key Principal, and confirm that the Borrower's organizational structure complies with Part II, Chapter 3: Legal Compliance.
- Confirm that no unauthorized change has been made to the Borrower's organizational structure or documents.
- Obtain a new good standing certificate from the jurisdiction where the Borrower is organized.

1804.06 Borrower Credit

Requirements

You must obtain and review new financial statements for all parties relevant to the transaction.



For Small Mortgage Loans, you must:

- confirm that the FICO scores of any such individuals comply with [Part III, Chapter 9: Small Mortgage Loans, Section 911.02: FICO Scoring](#); and
- ensure that the net worth and liquidity complies with [Part III, Chapter 9: Small Mortgage Loans, Section 910.06: Net Worth and Liquid Assets](#).

Guidance

If the Borrower or any Key Principal, Guarantor, or Principal submitted financial statements within the past 12 months, then in lieu of new financial statements, you may accept a certification that there has been no material adverse change from the financial condition or credit standing reflected in the financial statements.

1804.07 Property Management

Guidance

You may elect not to review the Property management or agreement per [Part II, Chapter 1: Attributes and Characteristics, Section 108: Property Management and Agreement](#).

1804.08 Replacement Reserve

Requirements

You must ensure the Replacement Reserve is funded as follows:

If...	Then...
<p>The Property</p> <ul style="list-style-type: none"> • is located in a Pre-Review Market that is not eligible for delegation at any Tier per Section II of the Form 4660, and • the market was a Pre-Review Market when the Portfolio Mortgage Loan was originated. 	<p>The Borrower must fully fund the Replacement Reserve.</p>



If...	Then...
<p>The Property</p> <ul style="list-style-type: none">• is located in a Pre-Review Market that is not eligible for delegation at any Tier per Section II of the Form 4660, but• the market was not a Pre-Review Market when the Portfolio Mortgage Loan was originated.	<p>You must determine the Replacement Reserve funding per Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve.</p>
<p>The Property is located in</p> <ul style="list-style-type: none">• a Strong Market,• a Nationwide Market, or• a Pre-Review Market that is eligible for Tier 3 and Tier 4 Mortgage Loans on a delegated basis per Section II of the Form 4660.	<p>You must determine the Replacement Reserve funding per Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve.</p>

1804.09 Real Estate Tax and Insurance Escrows

Requirements

You must require T&I escrow deposits for a Tier 2 Choice Refinance Loan unless Fannie Mae waived the T&I escrow for the Portfolio Mortgage Loan. If you do not require T&I escrow deposits, then you must comply with [Part II, Chapter 4: Inspections and Reserves, Section 405: Escrow Requirements for Taxes and Insurance](#).

Section 1805 Property Ownership Change

Guidance

If at the time of the refinance of the Portfolio Mortgage Loan the Property is being sold to a new owner, then you may use the streamlined underwriting per [Part III, Chapter 18: Choice Refinance Loans, Section 1804.01: Zoning](#), [Part III, Chapter 18: Choice Refinance Loans, Section 1804.02: Property Condition Assessment \(PCA\)](#), and [Part III, Chapter 18: Choice Refinance Loans, Section 1804.03: Environmental Site Assessment](#) provided that you comply with [Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals](#) for underwriting the Borrower, Key Principals, Guarantors, and Principals.



You may also use the streamlined underwriting per [Part III, Chapter 18: Choice Refinance Loans, Section 1801: Eligibility for Portfolio Mortgage Loans](#) that were assumed before being refinanced as a Choice Refinance Loan.



Glossary

B

Borrower Person who is the obligor under the Note.

Synonyms

- Borrowers
- Borrower's

C

Choice Refinance Loan Mortgage Loan refinancing a Portfolio Mortgage Loan using the streamlined underwriting requirement per [Part III, Chapter 18: Choice Refinance Loans](#).

Synonyms

- Choice Refinance Loans

Collateral Property, Personal Property, or other property securing a Mortgage Loan.

E

Environmental Site Assessment Report (either a Phase I ESA or a Phase II ESA) identifying whether a Property is subject to Recognized Environmental Conditions or Business Environmental Risks.

Synonyms

- ESA

F



Form 4660

Multifamily Underwriting Standards identifying Pre-Review Mortgage Loans and containing the minimum 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

Guarantor

Key Principal or other Person who executes a Payment Guaranty, a Non-Recourse Guaranty, or any other guaranty in connection with the Mortgage Loan.

Synonyms

- Guarantors

Guide

Multifamily Selling and Servicing Guide and Delegated Underwriting and Servicing Guide, including any exhibits, appendices, or other referenced forms, as updated, amended, restated, modified, or supplemented by any lender memo; provided, however, if a topic is covered in the Multifamily Selling and Servicing Guide, that Guide shall control unless a Lender Contract specifically requires use of another Guide.

Synonyms

- DUS Guide

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



Letter of Credit

Letter of Credit approved by Fannie Mae per [Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit](#).

Synonyms

- Letters of Credit
- LOC
- LOCs

Loan Documents

All documents evidencing, securing, or guaranteeing the debt obligation executed for a Mortgage Loan and approved by Fannie Mae.

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 Origination Date

Date the Lender funds a Mortgage Loan to the Borrower.

Synonyms

- Mortgage Loan's Origination Date
- Origination Date

Multifamily Underwriting Certificate

Multifamily Underwriting Certificate ([Form 6460](#)), and/or other agreement approved by Fannie Mae that provides underwriting information for a Mortgage Loan.

P



Portfolio Mortgage Loan

Mortgage Loan that was purchased by Fannie Mae and is held as of a certain date regardless of whether it is a Cash Mortgage Loan or an MBS Mortgage Loan.

Synonyms

- Portfolio Mortgage Loans

Pre-Review

Requirement that the Lender obtain Fannie Mae's approval before Rate Lock of a Mortgage Loan.

Pre-Review Mortgage Loan

Mortgage Loan that is not delegated to the Lender and requires Fannie Mae's approval before Rate Lock.

Prepayment Premium

When a Mortgage Loan prepayment is made, amount required to be paid by the Borrower in addition to the principal amount being prepaid and accrued interest per the related Loan Documents.

Synonyms

- Prepayment Premiums

Principal

Person who owns or controls 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 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



Property Condition Assessment

Assessment of the current physical condition and historical operation of the Property.

Synonyms

- PCA
- PNA
- Physical Needs Assessment
- PCAs

R

Replacement Reserve

Custodial Account established by the Lender and funded by deposits from the Borrower over the term of the Mortgage Loan to fund the replacement of capital items at the Property.

Synonyms

- Replacement Reserves

S

Servicer

Primary Person responsible for servicing the Mortgage Loan (e.g., the originator, the selling Lender, or a third-party servicer).

Synonyms

- Servicers

T

Taxes and Insurance

Taxes or assessments that may become a Lien on the Property and insurance premiums.

Synonyms

- T&I
- Tax and Insurance

W

Watchlist

Mortgage Loan or Property exhibiting heightened credit risk as identified by the Lender or Fannie Mae.