



Multifamily Selling and Servicing Guide

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Chapter 6 Watchlist Management

Section 601 General

This Chapter sets forth the minimum standards for identifying and servicing Mortgage Loans that exhibit signs of heightened credit risk. Certain circumstances may require the Servicer to perform additional servicing duties. Although Fannie Mae requires Servicers to service all Mortgage Loans to a high standard, those exhibiting heightened credit risk must be serviced to an enhanced standard commensurate with the increased risk. Fannie Mae may exercise its remedies under the Lender Contract if the Servicer fails to comply with the standards described in this Chapter. All of the requirements of this Chapter apply to Primary Risk Mortgage Loans and Secondary Risk Mortgage Loans unless otherwise indicated.

Section 602 Risk Rate and Maintain Servicer Watchlist

The Servicer must maintain a Servicer Watchlist by risk rating its Fannie Mae Mortgage Loan portfolio in order to identify Mortgage Loans exhibiting heightened credit risk consistent with the instructions and classification provided in this Chapter.

Section 603 Servicer Watchlist Classifications and Requirements

To promote consistency in identifying Mortgage Loans exhibiting heightened credit risk, Fannie Mae has defined rating classifications for the Servicer to determine which Mortgage Loans must be identified on the Servicer Watchlist described in this Chapter. These classifications are similar to regulatory definitions applicable to U.S. depository institutions with respect to assets exhibiting heightened credit risk.

603.01 Rating Classifications

603.01A Pass Asset

A Pass Asset exhibits no evidence of an emerging weakness that could affect its future performance. A Pass Asset is performing as agreed and demonstrates none of the weaknesses described in the following definitions for a Pass/Watch Asset, Special Mention Asset, Substandard Asset, or Doubtful Asset.

603.01B Pass/Watch Asset

A Pass/Watch Asset demonstrates a current weakness, condition,



or characteristic that is not yet severe enough to warrant a Substandard Asset or Doubtful Asset rating.

Characteristics of a Pass/Watch Asset rating include, but are not limited to, physical condition, cash flow and/or other measures of performance that are weaker than expected or as underwritten, yet operating performance has not diminished such that the Asset should be adversely classified.

603.01C Special Mention Asset

A Special Mention Asset is a Mortgage Loan that would otherwise be rated Pass, but has potential weaknesses requiring close attention. Ordinarily assets rated Special Mention have deficiencies in their administration which corrective management action might remedy. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the Mortgage Loan, or adversely affect its future performance. A Special Mention Asset rating is not a compromise between a Pass Asset and Substandard Asset rating, and should not be used to avoid exercising such judgment. Instead, it should be used to guide management on corrective measures that might be taken to strengthen an asset to avoid any potential deterioration in the asset's quality.

Characteristics of a Special Mention Asset rating include, but are not limited to, matters not immediately impacting Property cash flow or asset value that, if left uncorrected, may warrant an adverse risk classification in the future, including:

- material noncompliance with any Loan Document (including, but not limited to, any Completion/Repair Agreement, Replacement Reserve Schedule, or Collateral Agreement), or other similar Borrower obligation;
- ownership or management problems;
- pending litigation, citations, or code/regulatory violations; or
- any other material structural weakness, or any other significant deviation from prudent lending or ownership practices.

603.01D Substandard Asset

A Substandard Asset is inadequately protected by the current net worth and paying capacity of the Borrower or the related Property, including any additional collateral pledged. A Mortgage Loan classified as a Substandard Asset must have a well-defined weakness or weaknesses that may jeopardize the timely repayment of the Mortgage Loan, and there must be a distinct possibility that the Borrower will default under the terms of the Mortgage Loan if the deficiencies are not corrected. While Substandard Assets generally will have a distinct potential for loss, an individual Mortgage Loan may still be rated as a Substandard Asset even though that Mortgage



Loan does not have distinct loss potential should it default.

A Substandard Asset has a higher probability of payment default than a Pass Asset or a Pass/Watch Asset, or it has other well-defined weaknesses and requires more intensive supervision by the Servicer.

Characteristics of a Substandard Asset rating include, but are not limited to:

- inadequate debt service coverage; or
- repayment that depends on the sale of the Property (or other collateral, if any) securing the Mortgage Loan, the assumption of the Mortgage Loan, or other credit risk mitigants.

603.01E Doubtful Asset

A Doubtful Asset has all the weaknesses inherent in a Substandard Asset with the added characteristic that the weaknesses make timely collection or liquidation in full highly questionable and improbable on the basis of currently existing facts, conditions, and values.

A Doubtful Asset is either already in default or has a high probability of default, and may have a high probability of total or substantial loss. However, the extent of the loss may not be clear due to specific pending events that may strengthen the asset or mitigate the loss. Pending events can include mergers, acquisitions, liquidations, capital injections, obtaining and perfecting Liens on additional collateral, the valuation of collateral, and refinancing. Generally, pending events should be resolved within a relatively short period and the rating will be adjusted based on the new information.

603.02 Identification on Servicer Watchlist

A Mortgage Loan having characteristics of anything other than a Pass Asset or Pass/Watch Asset must be identified on the Servicer Watchlist by that Mortgage Loan's risk rating classification.

603.03 Increased Communication with Fannie Mae

A Servicer must increase its communication with the appropriate Multifamily Loss Mitigation, Multifamily Maturity Management, and Top Loss Management Representative concerning any Mortgage Loan that meets the criteria of a:

- Special Mention Asset;
- Substandard Asset; or
- Doubtful Asset.



The Servicer must contact Multifamily Loss Mitigation, or the appropriate Multifamily Maturity Management or Top Loss Management Representative by telephone or e-mail within 10 Business Days after the Servicer determines that a Mortgage Loan has moved to either a Substandard Asset or a Doubtful Asset since the last reporting period.

These communications must provide sufficient detail to ensure that Fannie Mae is fully apprised of the nature and severity of the factors leading to the rating characterization assigned by the Servicer.

A Servicer must act prudently and in a timely manner, as required under its Lender Contract, this Guide, and the Loan Documents, to mitigate the risk of loss or default with respect to Mortgage Loans serviced on behalf of Fannie Mae. Such actions may include, but are not limited to:

- increased monitoring of the management and operating results of the Property (and other collateral, if any);
- increased monitoring of the physical condition of the Property (i.e., increased inspections beyond the stated requirements);
- rescission of waivers or implementation of Loan Document requirements that serve to mitigate risk (e.g., the reinstatement of the Multifamily Loan Agreement requirement to fund the Replacement Reserve that had been previously waived); and
- increased communication with the Borrower and any party that has managerial rights pertaining to the Borrower or the Property (and other collateral pledged with respect to the Mortgage Loan, if any).

Section 604

Servicer Watchlist Submission

The Servicer must submit to Fannie Mae the Servicer's Watchlist for all Primary Risk Mortgage Loans and Secondary Risk Mortgage Loans rated by the Servicer as a Special Mention Asset, Substandard Asset, or Doubtful Asset. For each Mortgage Loan on the Servicer's Watchlist, the Servicer should:

- explain why the Asset is being reported, including the rationale for assigning the specific rating for that asset; and
- provide an update on the current status of the issues.

Additionally, the Servicer must answer "Yes" or "No" to the following 2 questions:

1. Is it likely that the Borrower will not be able to make Debt Service payments in a timely manner?
2. Is it likely the Borrower will not meet the contractual obligations to pay off the principal balance of this Mortgage Loan in a



timely manner?

The Servicer's Watchlist and answers to the above 2 questions must be submitted within 45 days after the end of each calendar quarter, and no later than the due date shown in the MAMP. Submissions are made using the CSV upload template located in the Resource Library of the MAMP. Fannie Mae will review the submission and determine if further actions are warranted.

Section 605 Fannie Mae Watchlist

Fannie Mae maintains a Fannie Mae Watchlist that identifies Mortgage Loans that exhibit increased credit risk based on Fannie Mae's proprietary Mortgage Loan rating system. Servicers are able to view all rated Mortgage Loans in the "My Portfolio" section of the MAMP.

Fannie Mae will initiate communications with the Servicer to discuss the severity of risk of each Mortgage Loan included in the Fannie Mae Watchlist.

Section 606 Action Plans

606.01 Action Plans for Primary Risk Mortgage Loans

The Servicer must submit an Action Plan for every Primary Risk Mortgage Loan identified as a Substandard Asset on the Fannie Mae Watchlist. However, no Action Plan is required for Small Mortgage Loans that are Substandard Assets unless specifically requested by Fannie Mae. Periodically, Fannie Mae publishes a schedule outlining the dates by which the Servicer must (i) determine whether any Mortgage Loan qualifies as a Substandard Asset, and (ii) submit the Action Plan.

Action Plans must contain details sufficient to allow Fannie Mae to understand (i) the areas of concern, (ii) the actions the Servicer is taking to resolve the issues, and (iii) the results of the actions. A Watchlist Management User Guide and prescribed formats for Action Plans are published on the Lender Dashboard of the Watchlist Management application and in the Resource Library of the MAMP. The Servicer must update Action Plans as needed, but not less frequently than twice per year to reflect:

- material changes;
- causes of issues and additional actions being taken;
- an explanation of how additional actions will reduce the risk factors of the Mortgage Loan; and
- the results of any actions taken previously.

A Servicer may suspend actions required under an Action Plan for



a Substandard Asset if it is re-characterized as a Special Mention Asset, a Pass/Watch Asset, or a Pass Asset prior to the date set forth in the Fannie Mae publication by which the Servicer must determine whether any Mortgage Loan qualifies as a Substandard Asset.

Fannie Mae will evaluate the quality of the Servicer's Action Plans, including timeliness of the submission, completeness, appropriateness, and management activity.

606.02 Information Requests and Action Plans for Secondary Risk Mortgage Loans

Fannie Mae may request additional information from the Servicer with respect to Secondary Risk Mortgage Loans on the Servicer Watchlist. Such information may include an Action Plan which must be in the format prescribed in the Lender Dashboard – Watchlist Management application. All requested information and Action Plans must be provided by the Servicer within 5 Business Days after request by Fannie Mae.

606.03 Defaulted Mortgage Loans on Fannie Mae or Servicer Watchlist

The Servicer's obligations with respect to defaulted Mortgage Loans are addressed in [Part V, Chapter 7: Non-Performing Mortgage Loans](#). The Servicer must continue to execute activities set forth in an Action Plan (and as otherwise communicated to or with Fannie Mae) with respect to a defaulted Mortgage Loan until and unless servicing of the Mortgage Loan is transferred to Special Servicing in accordance with [Part V, Chapter 7: Non-Performing Mortgage Loans](#). Once transferred to Special Servicing, the Servicer may suspend any actions required under an Action Plan.

Section 607 Property Condition Concerns (Not Limited to Watchlist Loans)

Regardless of whether or not the Mortgage Loan is listed on the Fannie Mae Watchlist or the Servicer Watchlist, the Servicer must take the following actions if (i) a Mortgage Loan has a Property inspection rating of 4 or 5, as shown on the Fannie Mae Assessment Addendum ("Fannie Mae Assmt Addendum") tab of the MBA Master Inspection Form, or (ii) the property is found to have any life safety concerns or significant deferred maintenance:

- reinstate any suspended requirements for repair or replacement reserves escrows;
- inspect the affected Property or Properties as frequently as necessary to identify, monitor, and work to correct the matter of concern, but in no event less frequently than required by [Part V, Chapter 5: Surveillance](#);



- obtain Fannie Mae’s approval prior to ordering a Property Condition Assessment (“PCA”); and
- identify the Mortgage Loan as Substandard (or other appropriate classification) as directed by this Chapter.

Section 608 **Servicer Fees for Workout, Modification, or Reinstatement**

The Servicer may not charge the Borrower any fee for its own account, or seek reimbursement from the Borrower for any costs or expenses in connection with any workout, modification, or reinstatement of a Mortgage Loan on the Servicer Watchlist or the Fannie Mae Watchlist without the prior approval of Fannie Mae.

Section 609 **Fannie Mae Contractors**

Periodically, Fannie Mae may contract with others to provide asset management and other services on its behalf with respect to Mortgage Loans. All required interactions between a Servicer and such Fannie Mae contractors must be conducted as though the Servicer is interacting directly with Fannie Mae and, in all instances, consistent with the Servicer's obligations under this Guide.



Glossary

A

Action Plan Servicer's report to Fannie Mae including detailed analysis of Mortgage Loan and Property issues, Servicer's strategy for resolving issues, and related actions and outcomes.

Synonyms

- Action Plans

B

Borrower Person who is the obligor under the Note.

Synonyms

- Borrowers
- Borrower's

C

Collateral Agreement Agreement under which collateral (other than the Property) may be pledged, transferred, or otherwise provided to secure the Borrower's obligations under a Mortgage Loan.

Synonyms

- Collateral Agreements

Completion/Repair Agreement Document evidencing the Borrower's agreement to undertake Completion/Repairs and other identified capital improvements, the terms for funding the repairs, maintenance, or capital items, and the disbursement of funds from the Completion/Repair Escrow (e.g., Form 4505, or the applicable parts of the Multifamily Loan Agreement ([Form 6001 series](#)), including the Required Repair Schedule to the Multifamily Loan Agreement).

Synonyms

- Completion/Repair Agreements



G

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

L

Lender

Person approved by Fannie Mae to sell or service Mortgage Loans.

Synonyms

- Lenders
- Lender's

Lender Contract

Program Documents per the Mortgage Selling and Servicing Agreement.

Synonyms

- Lender's Contract
- Lender Contracts
- Contract
- MSSA

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

MAMP Multifamily Asset Management Portal used to submit Property inspections, operating statements, and requested modifications; asset management reports; and data corrections related to loan or property level attributes.

Synonyms

- Multifamily Asset Management Portal

MBA Mortgage Bankers Association

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

Multifamily Loan Agreement Agreement evidencing the terms of a Mortgage Loan using the [Form 6001 series](#) Loan Documents or another form approved by Fannie Mae.

Multifamily Loss Mitigation Team that can be contacted at lm_watch@fanniemae.com.

Synonyms

- Multifamily Watchlist

P

Primary Risk Mortgage Loan Mortgage Loan where Fannie Mae bears all losses or where the Lender and Fannie Mae share losses.

Synonyms

- Primary Risk Mortgage Loans
- Primary Risk



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



Replacement Reserve Schedule

The Required Replacement Schedule to the Multifamily Loan Agreement ([Form 6001 series](#)) a Replacement Reserve and Security Agreement (Form 4506), or another agreement approved by Fannie Mae, that evidences:

- the Borrower's agreement to undertake identified replacement of capital items and required maintenance;
- the terms for funding such replacement of capital items and maintenance; and
- the disbursement of funds from the Replacement Reserve.

Synonyms

- Replacement Reserve Schedules

S

Servicer

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

Synonyms

- Servicers

W

Watchlist

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