



Multifamily Selling and Servicing Guide

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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.



Glossary

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

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



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

R

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