



Multifamily Selling and Servicing Guide

Effective as of August 1, 2019

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Section 407 Subordinate Financing

407.01 Non-Fannie Mae Subordinate Financing

A Subordinate Loan is generally not permitted unless it complies with Fannie Mae's requirements. Approval of any Subordinate Loan is not delegated to the Servicer and must be approved in advance by Fannie Mae. Additionally:

- with respect to any Subordinate Loan, the Servicer must abide by the terms and conditions of the Loan Documents, the Guide, and any Disclosure Documents, provided that the Loan Documents will control in the case of any conflict;
- unless the Loan Documents explicitly allow a Subordinate Loan, the Servicer must not permit the Borrower, without prior Fannie Mae approval, to incur the Subordinate Loan or allow a Lien securing the Subordinate Loan to be placed against the Property;
- if the Loan Documents explicitly allow a Subordinate Loan without the approval of the Lender, the consent of the Servicer or Fannie Mae is not required; however, notice of the Subordinate Loan and a copy of any documents must be submitted through the MAMP;
- the Borrower and the subordinate lender must enter into and record the appropriate Subordination Agreement ([Form 6414](#) or [Form 6456](#)); and
- the proceeds of the Subordinate Loan must benefit the Property (i.e., cash-out financing is not permitted).

The Servicer must immediately notify Multifamily Asset Management in writing upon learning of any unauthorized additional unsecured debt or indebtedness secured by a Lien on the Property or of any pledge of ownership interests that is not permitted by the Loan Documents, and send the Borrower a Reservation of Rights Letter ([Form 4804](#)) with a copy submitted through the MAMP. Fannie Mae will determine whether to approve the Subordinate Loan, or exercise its remedies.

407.02 Prerequisite for Subordinate Financing

[Part III, Chapter 14: Supplemental Mortgage Loans](#), contains the requirements for Supplemental Mortgage Loans, and [Part III, Chapter 7: Multifamily Affordable Housing Properties](#) contains additional requirements for subordinate financing with respect to a Multifamily Affordable Housing Property. The Servicer must ensure adherence to all



applicable requirements.

407.03 Fees for Subordinate Financing

The Borrower must pay the Servicer a \$2,500 review fee. The Servicer may increase or decrease its fee at its discretion. No Fannie Mae review fees are due. The Servicer may also seek reimbursement from the Borrower for all reasonable out-of-pocket costs, including reasonable legal fees incurred by Servicer's counsel.

If Fannie Mae outside counsel is engaged, the Borrower must pay its fee, estimated at \$2,500 for Subordinate Financing requests. The actual legal fee may be higher or lower, depending on the ultimate scope of the request and the time necessary to resolve. The Servicer will receive a summary invoice directly from Fannie Mae outside counsel and must arrange for payment. The Servicer will be apprised of any likely increases in the estimated review fee. The estimated legal fee must be collected from the Borrower before engaging Fannie Mae outside counsel.

407.04 Submitting the Request for Subordinate Financing

Any Borrower request for approval of a Subordinate Loan must be reviewed by the Servicer. If acceptable, the request must be submitted for approval through the MAMP in accordance with the following:

- the Servicer must submit the request to Fannie Mae at least 30 days before the projected closing date of the Subordinate Loan; and
- the submission must contain:
 - an Appraisal (obtained at the Borrower's cost), dated no earlier than 90 days prior to the date of the Borrower request for approval of the Subordinate Loan, that complies with [Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation](#);
 - Servicer's underwriting spreadsheet showing the Subordinate Loan's effect on the Property's income, expenses, NCF, DSCR, and LTV;
 - a copy of the final, unsigned loan documents evidencing the Subordinate Loan, with the loan amount, interest rate, payment schedules, and all other transaction related information completed;
 - the MBA Master Inspection Form documenting a physical inspection of the Property, performed at Borrower's expense, occurring no earlier than 90 days before the date of the Borrower request for the Subordinate Loan; provided that, if the Servicer's inspection of the Property reveals that



the Property is not being properly maintained, the Borrower request will not be approved by Fannie Mae unless:

- a Replacement Reserve is sufficiently funded; and
- the Borrower makes any immediate repairs identified by the Servicer prior to the closing date of the Subordinate Loan; and
- a title policy endorsement for the Property showing no unauthorized Liens or encumbrances of any nature against the Property.

For a Cooperative Property, the Subordinate Loan is unacceptable if the potential increase in the Cooperative Maintenance Fee necessary to cover P&I on the Subordinate Loan exceeds 10% of the current Cooperative Maintenance Fee.

407.05 Fannie Mae Approval and Execution

Fannie Mae will provide the Servicer with a written decision regarding the Borrower request, after which the Servicer must notify the Borrower in writing and retain the notice in the Servicing File.

407.06 Subsequent Servicer Actions

The Servicer must:

- not permit any changes to the form Subordination Agreement ([Form 6414](#) or [Form 6456](#)) without the prior written consent of Fannie Mae;
- obtain a satisfactory title policy endorsement effective as of the date of recordation of the subordinate security instrument that:
 - insures the Lien of the Security Instrument as senior to the Lien of the subordinate security instrument; and
 - reflects the recordation of the Subordination Agreement;
- submit a copy of the recorded Subordination Agreement through the MAMP; and
- retain a copy of the recorded Subordination Agreement and the title policy endorsement in the Servicing File.



Glossary

A

Appraisal Written statement independently and impartially prepared by a qualified appraiser stating an opinion as to the market value of the Property as of a specific date, supported by the presentation and analysis of relevant market information.

Synonyms

- Appraisals

B

Borrower Person who is the obligor under the Note.

Synonyms

- Borrowers
- Borrower's

C

Cooperative Maintenance Fee Periodic fee assessed each shareholder or owner of a Cooperative Organization to fund costs and expenses associated with ongoing operations of the Cooperative Property.

Synonyms

- Cooperative Maintenance Fees

Cooperative Property Multifamily residential property owned by a Cooperative Organization.

Synonyms

- Coop
- Cooperative

D



Disclosure Documents Documents for an Investor for a particular Securitized Mortgage Loan, which may include the MBS Trust Agreement, Prospectus, and any related documents.

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

Lien Lien, mortgage, bond interest, pledge, security interest, charge, or encumbrance of any kind.

Synonyms

- Liens



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

Multifamily Affordable Housing Property

Property encumbered by a regulatory agreement, land use restriction agreement, extended use agreement, or similar restriction that limits rents that can be charged to tenants, or imposes income limits on tenants.

Synonyms

- MAH
- Multifamily Affordable Housing
- MAH Property

Multifamily Asset Management

Team that can be contacted at drawer_am@fanniemae.com.

P

P&I

Principal and interest



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 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

Security Instrument Instrument creating a lien or encumbrance on 1 or more Properties and securing the obligations under the Loan Documents.

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

Synonyms

- Servicers

Servicing File File for each Mortgage Loan serviced by the Lender.

Synonyms

- Servicing Files



Subordinate Loan

Multifamily residential real estate loan secured by a Lien against the Property having a lesser priority than the Lien securing another multifamily residential real estate loan on the same Property.

Synonyms

- Subordinate Loans