



# Multifamily Selling and Servicing Guide

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## **TABLE OF CONTENTS**

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Part V Section 408.02C Draws on Letters of Credit or Application of Other Collateral .....	3
GLOSSARY .....	5



## **408.02C** Draws on Letters of Credit or Application of Other Collateral

### **1. Draws Triggered by Adverse Events**

The Servicer must promptly notify Multifamily Asset Management when any of the following events occur, which could result in a draw on a Letter of Credit issued for an Achievement Agreement or other Collateral Agreement:

- a default under the Loan Documents, including the Achievement Agreement or other Collateral Agreement;
- the failure to renew or replace an expiring Letter of Credit at least 30 days prior to its expiration date, or other deadline specified in the Achievement Agreement or other Collateral Agreement; or
- the failure to replace a Letter of Credit by the replacement deadline when the Issuer is no longer acceptably rated.

The Servicer's notice to Fannie Mae must include a recommended course of action, and be accompanied by a copy of the executed Achievement Agreement or other Collateral Agreement.

### **2. Draw Resulting from Non-Compliance with Issuer Rating Requirements or Expiration of Letter of Credit**

If a draw on the Letter of Credit occurs due to non-compliance with the rating requirements for the Issuer or because of an imminent expiration of the Letter of Credit, Fannie Mae will hold the Letter of Credit proceeds in its designated account until the earliest of the following:

- the Borrower presents a replacement Letter of Credit and Fannie Mae agrees, in its sole discretion, to accept the Letter of Credit;  
(NOTE: Any agreement by Fannie Mae to accept a replacement Letter of Credit will be conditioned upon the Borrower's payment of all administrative and legal costs incurred by the Servicer and Fannie Mae in connection with the replacement of the Letter of Credit.)
- the release or reduction provisions of the applicable Achievement Agreement or other Collateral Agreement are satisfied; or
- the Borrower pays all amounts due and payable under the Loan Documents, including any required Prepayment Premium, and Fannie Mae releases the Lien of the Security Instrument.



### 3. Draws Occasioned by Borrower Request

If the Servicer receives a request from the Borrower to draw on the Letter of Credit and have the proceeds applied as a partial prepayment against the UPB, and the Loan Documents allow partial prepayments, the Servicer must immediately forward the request, along with an analysis and recommendation, including an estimate of the applicable Prepayment Premium, to Fannie Mae. If the Loan Documents do not allow partial prepayments, the Servicer must deny the Borrower request.

Fannie Mae will assess the Borrower request and determine if the proposed use of the Letter of Credit proceeds or other collateral would be in the best interest of Fannie Mae and/or the Investor in any Securitized Mortgage Loan. **Any decision to apply Letter of Credit proceeds or apply other collateral to a partial prepayment will be made by Fannie Mae in its sole discretion.** Fannie Mae will notify the Servicer of its determination and will provide appropriate follow-up instructions.

### 4. No Interest on Proceeds Held by Fannie Mae

Fannie Mae will not pay interest on the cash proceeds it holds resulting from a draw on a Letter of Credit.



# Glossary

## A

**Achievement Agreement** Agreement requiring the Borrower to provide a letter of credit, cash, or guaranty as additional collateral to support the Mortgage Loan amount and specifying the terms for releasing the collateral.

**Synonyms**

- Achievement Agreements

## 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

## I

**Investor** MBS Investor for an MBS Mortgage Loan, or Fannie Mae for a Cash Mortgage Loan.

**Synonyms**

- Investors



**Issuer** Entity that:

- issues Bonds for a Credit Enhancement Mortgage Loan;
- packages mortgages for sale as a Security for an MBS;

or

- issues a Letter of Credit.

**Synonyms**

- Issuers

## 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

**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

**Multifamily Asset Management** Team that can be contacted at [drawer\\_am@fanniemae.com](mailto:drawer_am@fanniemae.com).



## P

**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

## S

**Securitized Mortgage Loan** Mortgage Loan backing an MBS, PFP MBS, or REMIC.

### **Synonyms**

- Securitized Mortgage Loans

**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

## U

**UPB** Unpaid Principal Balance