



Fannie Mae®

Multifamily Selling and Servicing Guide

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408.04 Replacement Reserve

408.04A General

The Replacement Reserve funds must be held by the Servicer in a Custodial Account, and are intended to pay for necessary replacements of capital items or major maintenance work to the Property over the term of the Mortgage Loan. Replacement Reserve deposits and withdrawals are governed by the Replacement Reserve Schedule.

408.04B Amendments to Replacement Reserve Schedules

If the Servicer is delegated the authority to sign an amended Replacement Reserve Schedule under its Limited Power of Attorney, the delegation does not expand the Servicer's ability to change or modify the terms of the Replacement Reserve Schedule, except where expressly permitted by this Section.

The Servicer must submit the executed amended Replacement Reserve Schedule through the MAMP, and retain the original in its Servicing File.

408.04C Servicer's Administrative Requirements

For all Replacement Reserve Schedules, the Servicer must:

- retain a copy of the executed Replacement Reserve Schedule in its Servicing File;
- unless the Borrower has requested in writing a non-interest bearing account, hold all funds in an interest-bearing Custodial Account that meets the requirements of [Part V, Chapter 3: Custodial Account Requirements](#) and the Replacement Reserve Schedule;
- ensure that all required deposits are made to the Replacement Reserve in accordance with the Replacement Reserve Schedule and the other Loan Documents;
- process Borrower requisitions for funds in accordance with the terms and conditions of the Replacement Reserve Schedule;
- perform required inspections of completed work and, if appropriate, work in progress, and arrange, if necessary, for inspections by qualified professionals;
- ensure that the work done under the Replacement Reserve Schedule does not result in any mechanics' Liens, materialmen's Liens, or other Liens that have not been



acceptably bonded over;

- promptly notify Fannie Mae of any default under the Replacement Reserve Schedule in accordance with the requirements of [Part V, Chapter 7: Non-Performing Mortgage Loans](#);
- reassess the adequacy of the Replacement Reserve or the schedule of required deposits; and
- perform all other administrative duties required by the Replacement Reserve Schedule.

408.04D Modifications to Replacement Reserve Deposits

Based on the results of a Property inspection or Property Condition Assessment, the Servicer may determine that the current level of Replacement Reserve funding and scheduled deposits will be insufficient to meet all projected capital item or major maintenance needs. The Servicer must then:

- adjust the Required Repair Schedule to the Replacement Reserve Schedule and the Replacement Reserve funding, if warranted, in accordance with the Loan Documents and Part III;
- require the Borrower to increase the size of its monthly Replacement Reserve deposits to a sufficient level; and
- give the Borrower at least 30 days advance written notice prior to implementing any of the foregoing changes.

408.04E New Property Condition Assessments

1 . MAH Properties and other Mortgage Loans with Terms Greater than 10 Years

All MAH Properties require a new Property Condition Assessment every 5 years. For any other Mortgage Loan having a term greater than 10 years, the Servicer must arrange to have a Property Condition Assessment performed during the tenth Loan Year, and every 10 years thereafter, so long as the Mortgage Loan remains outstanding, or as specified in the Loan Documents.

2 . Cost of Property Condition Assessment

Subject to the terms of the Loan Documents, the cost of the Property Condition Assessment may be paid from funds in the Replacement Reserve.

408.04F When Replacement Reserve Funding Was Partially or Fully Waived

If Replacement Reserve funding was partially or fully waived at the



Mortgage Loan Origination Date, the Servicer must monitor the condition of the Property to ensure the Borrower preserves and maintains the Property as required by the Loan Documents.

If the Servicer or Fannie Mae determines that the Borrower is not properly preserving and maintaining the Property, the Servicer must require the Borrower to begin making monthly deposits to the Replacement Reserve in accordance with either the funding schedule set forth in the Replacement Reserve Schedule, or an alternative funding schedule determined by the Servicer.

408.04G Interest on Replacement Reserve Funds

If the Servicer holds the Replacement Reserve funds in an interest-bearing Custodial Account, none of the interest earned on the Replacement Reserve funds may be retained by the Servicer. Unless the Mortgage Loan is in default, all interest must be:

- added to the balance of the Replacement Reserve; or
- paid to the Borrower if applicable law requires or the Servicer agrees.

408.04H Items Eligible for Funding from the Replacement Reserve

Replacement Reserve funds are available to reimburse the Borrower for costs incurred to replace capital items or maintain major items specifically identified in the Replacement Reserve Schedule.

Replacement Reserve funds also may be used for discretionary replacements of capital items or major maintenance items that are not specifically identified in the Replacement Reserve Schedule, but which the Servicer determines are intended to be covered by a Replacement Reserve Schedule, such as those that would:

- correct or forestall a problem that may adversely affect the physical condition, livability, marketability, or value of the Property;
- directly contribute to the maintenance or enhancement of the Property's physical condition, livability, marketability, or value; or
- likely be noted in an updated Property Condition Assessment.

If Replacement Reserve funds are used for purposes not originally contemplated in the Replacement Reserve Schedule or the Property Condition Assessment, the Servicer must monitor and adjust the monthly reserve deposits to ensure sufficient funds are available to make timely replacements of capital items or major maintenance items in the manner contemplated in the Replacement Reserve Schedule and/or the PCA.



408.04I Items Not Eligible for Funding from the Replacement Reserve

The Servicer must not use Replacement Reserve funds to reimburse the Borrower for any item specifically identified for reimbursement under a Completion/Repair Agreement, or for any routine maintenance item, routine repair, or cosmetic repair that would normally be characterized as an operating expense. Replacement Reserve funds must never be used for P&I, T&I, or any other purpose not specifically permitted by the Replacement Reserve Schedule, the Loan Documents, or the Guide.

408.04J Processing Borrower Requisitions

1 . General

The Replacement Reserve Schedule specifies the frequency, timing, and size of disbursements from the Replacement Reserve.

2 . Required Documentation

Each Borrower requisition must be in writing and specify, at a minimum:

- the specific capital item replaced or major maintenance items for which reimbursement is being sought, and if any item is not specifically identified in the Replacement Reserve Schedule, an explanation of why the Replacement Reserve funds should be released for the item;
- the quantity and price of each type of capital item replaced (e.g., refrigerators);
- the quantity and price of all materials or parts (grouped by type or category) purchased; and
- the cost of all contracted labor or other services.

Each Borrower requisition submitted to the Servicer must be accompanied by:

- a Borrower certification that the capital item replacements or major maintenance items covered by the requisition have been completed in compliance with all applicable laws, ordinances, rules, and regulations of any governmental authority, agency, or instrumentality having jurisdiction over the Property;
- copies of invoices and evidence of payment for all capital items and materials purchased and all labor and services provided, the cost of which exceeds the lesser of \$25,000 or 1% of the UPB;
- a release of Lien from each contractor, subcontractor, or material man providing services or materials, the cost of



which exceeds the lesser of \$25,000 or 1% of the UPB;
and

- other relevant documentation required by the Replacement Reserve Schedule.

3 . Disbursement of Funds

The Servicer may release funds to the Borrower only if all required documentation is received, and all applicable release conditions have been met, including, but not limited to:

- all capital item replacements or major maintenance items covered by the requisition have been completed in a good and workmanlike manner;
- all related invoices for capital items and services have been paid, unless the Borrower has satisfied any applicable pre-conditions of the Replacement Reserve Schedule for issuance of a joint check, made payable to the Borrower and the Person owed funds;
- no mechanics' Liens, materialmen's Liens, or other Liens are outstanding that have not been acceptably bonded over; and
- the Borrower is not in default under any Loan Document.

The amount disbursed to the Borrower must not exceed the actual cost of the capital item replacements or major maintenance items covered by the Borrower's requisition.

4 . Maintenance of Servicing File

The Servicer must ensure that the action taken with respect to each Borrower requisition for funds from the Replacement Reserve is appropriately documented in its Servicing File.

408.04K Inspections

The Servicer may use its discretion in deciding whether to conduct an on-site inspection before approving any specific requisition for Replacement Reserve funds. If the Servicer elects not to perform an on-site inspection when a requisition is submitted, the Servicer must inspect all capital item replacements or maintenance items covered by the requisition during its next scheduled Property inspection and confirm the satisfactory completion.

408.04L Fees

If the Replacement Reserve Schedule permits, the Servicer may collect and retain:



- a reasonable fee to cover the Servicer's routine costs of administering the Replacement Reserve; and
- additional fees to cover:
 - reasonable inspection costs, including the fees of any qualified professional used by the Servicer; and
 - any other reasonable costs incurred in connection with collecting, holding, investing, or disbursing Replacement Reserve funds but which are not adequately covered by the general administrative fees collected from the Borrower.

Subject to the Replacement Reserve Schedule, the Servicer may charge the Borrower a reasonable fee for any special inspection services provided in connection with a Replacement Reserve requisition; however, no fee may be charged if such inspection is made as part of a regularly scheduled Property inspection.

Replacement Reserve funds, including any interest, may not be used to cover fees due to the Servicer unless:

- the Replacement Reserve Schedule or other Loan Document specifically permits the Servicer to use Replacement Reserve funds to pay Servicer inspection fees; or
- the Borrower otherwise agrees in writing.

408.04M Default under Replacement Reserve Schedule

1 . Notification of Default to Fannie Mae

The Servicer must immediately notify Fannie Mae in writing of any default under the Replacement Reserve Schedule in accordance with the requirements of [Part V, Chapter 7: Non-Performing Mortgage Loans](#).

2 . No Release of Funds to Borrower

No funds may be released to the Borrower while the Mortgage Loan is in default.

408.04N Return of Replacement Reserve Funds to Borrower

No later than 30 days after the Mortgage Loan is paid in full, the Servicer must refund to the Borrower all remaining Replacement Reserve funds.

408.04O Alternative Funding of Replacement Reserves for Portfolio Mortgage Loans

The Servicer may amend existing Replacement Reserve Schedules on Fannie Mae's behalf to match the alternative Replacement Reserve funding available for newly originated Mortgage Loans if the



Borrower has a history of adequate property maintenance, and no other concerns are present (e.g., declining Property condition, declining rents, declining Net Cash Flow). The Servicer must retain the original restated Replacement Reserve Schedule or Amendment in the Servicing File, and submit a copy through the MAMP.

The Servicer must ensure the Property is properly maintained on an ongoing basis. If the Property is not being properly maintained, the Servicer must reinstate monthly deposits to the Replacement Reserve and the reimbursement requisition process.



Glossary

B

Borrower Person who is the obligor per the Note.

Synonyms

- Borrowers
- Borrower's

C

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

Custodial Account Accounts established by the Servicer for depositing P&I payments, T&I funds, Collateral Agreement deposits, and other similar funds.

Synonyms

- Custodial Accounts

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; however, for any topic in the Multifamily Selling and Servicing Guide, that Guide shall control unless a Lender Contract specifies another Guide.

Synonyms

- DUS Guide

L

Lien

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

Synonyms

- Liens

Limited Power of Attorney

Legal document authorizing a Servicer to execute certain Loan Documents related to the asset management of a Mortgage Loan as attorney-in-fact on behalf of Fannie Mae.

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

Loan Year

Period beginning on the date of the Note and ending on the last day of the month that is 12 full months after the date of the Note, and each successive 12-month period thereafter.

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

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's

Mortgage Loan Origination Date

Date you fund a Mortgage Loan to the Borrower.

Synonyms

- Mortgage Loan's Origination Date
- Origination Date

N

Net Cash Flow

On an annual basis or any specified period, the total Net Operating Income, minus the full amount underwritten for Replacement Reserve expense, regardless of whether deposits will be made (per [Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis](#) and the applicable products and features in Part III).

Synonyms

- NCF

P

P&I

Principal and interest



Person Legal person, including an individual, estate, trust, corporation, partnership, limited liability company, financial institution, joint venture, association, or other organization or entity (whether governmental or private).

Synonyms

- Persons

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

Servicing File

File for each Mortgage Loan serviced by the Lender.

Synonyms

- Servicing Files

U

UPB

Unpaid Principal Balance