



Multifamily Selling and Servicing Guide

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Section 702 Secondary Risk Mortgage Loans and Primary Risk Mortgage Loans

702.01 Generally

For certain Lenders, the Lender's Contract with Fannie Mae will specify which party has all of the risk of loss on the Mortgage Loan, or if the Lender and Fannie Mae share the loss. In some Lender Contracts, the Mortgage Loans may be Secondary Risk until the Lender's recourse obligation is deemed exhausted after which the Mortgage Loans will become Primary Risk.

702.02 Secondary Risk Mortgage Loans

702.02A Definition

A Mortgage Loan is considered a Secondary Risk Mortgage Loan when all losses incurred on such Mortgage Loan are contractually borne by the Lender until the Lender's specified recourse obligation is deemed exhausted. This obligation to bear all losses is sometimes referred to as a "Top Loss" obligation. Because Secondary Risk Mortgage Loans will convert to Primary Risk Mortgage Loans upon the deemed exhaustion of the Lender's obligation, Fannie Mae and the Servicer must work together to accurately track amounts for any losses that may have occurred.

702.02B Lender is Special Servicer

For all Secondary Risk Mortgage Loans, the Lender, or its approved contract servicer, will be the Special Servicer. The Special Servicer will be required to submit to Fannie Mae a Servicer Workout Action Template ("SWAT") ([Form 4810](#)) for all Secondary Risk Mortgage Loans as more particularly provided in [Part V, Chapter 7: Non-Performing Mortgage Loans, Section 708.02: Servicer Workout Action Template \("SWAT"\)](#).

702.02C Deemed Exhaustion of Recourse Obligation

When the cumulative approved realized losses plus Potential Losses under a Secondary Risk Lender Contract equal or exceed 90% of the Lender's recourse obligation under that Contract, the Lender's recourse obligation under the Contract will be deemed to be exhausted and the remaining Mortgage Loans serviced under that Contract will be deemed to be Primary Risk Mortgage Loans. Fannie Mae will provide notice in writing to the Servicer at the time of such re-designation. Re-designation of a Mortgage Loan from Secondary Risk to Primary Risk does not relieve the Lender of its remaining recourse obligation.



Fannie Mae's estimate of Potential Losses will be calculated as follows:

- the value of each Property (as provided below) securing all then-delinquent Mortgage Loans, less
- the UPB of all then-delinquent Mortgage Loans, plus
- estimated expenses to pursue a foreclosure Course of Action for all then-delinquent Mortgage Loans.

The value of the Property shall be calculated as follows:

- 90% of the Property value of each Property securing each such delinquent Mortgage Loan if the value is established by an appraisal or broker's opinion of value dated six (6) months or less prior to incurring the Potential Loss, or
- 60% of the most recent Property value of each Property securing each such delinquent Mortgage Loan if the value is established by an appraisal or broker's opinion of value dated more than six (6) months prior to incurring the Potential Loss.

702.03 Primary Risk Mortgage Loans Defined

702.03A Definition

A Mortgage Loan is considered a Primary Risk Mortgage Loan when Fannie Mae bears all losses on the Mortgage Loan or when the Lender and Fannie Mae share the losses on the Mortgage Loan. All Mortgage Loans delivered under the DUS and Aggregation product lines and certain other Mortgage Loans where Fannie Mae either bears all the risk of loss or shares in a portion of the risk of loss are Primary Risk Mortgage Loans.

702.03B Fannie Mae is Special Servicer

For all Primary Risk Mortgage Loans, Fannie Mae, or its contract servicer, will be the Special Servicer.



Glossary

C

Course of Action For Non-Performing Mortgage Loans, loss mitigation activities per [Part V, Chapter 7: Non-Performing Mortgage Loans](#).

Synonyms

- Courses of Action

D

DUS Delegated Underwriting and Servicing

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

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

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

S

Secondary Risk Mortgage Loan

Mortgage Loan where the Lender bears all losses until the Lender's recourse obligations are exhausted.

Synonyms

- Secondary Risk Mortgage Loans
- Secondary Risk

Servicer

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

Synonyms

- Servicers

Special Servicer

Servicer (which may be Fannie Mae, the Servicer, or a third-party special servicer contracted by Fannie Mae) responsible for implementing the loss mitigation actions for a Non-Performing Mortgage Loan.

U



UPB

Unpaid Principal Balance