



# Multifamily Selling and Servicing Guide

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## 704.01C Types of Performance Defaults

The following Performance Defaults must be reported by the Servicer, as provided in this Section; however, to the extent the Servicer believes that a Performance Default not listed below is material to the Borrower's ability to perform under the Mortgage Loan, or the value of the Mortgage Loan or the Property, the Servicer should report that Performance Default as well:

### 1. Unauthorized Transfers

To the extent not approved in accordance with [Part V, Chapter 4: Asset Management: Loan Document Administration, Section 418: Asset Management for Credit Enhancement Mortgage Loans and Multifamily Affordable Housing Properties](#), any transfers identified as a Transfer/Assumption in [Part V, Chapter 4: Asset Management: Loan Document Administration, Section 418: Asset Management for Credit Enhancement Mortgage Loans and Multifamily Affordable Housing Properties](#), unless such type of transfer is permitted under the applicable Loan Agreement or Security Instrument for the Mortgage Loan.

### 2. Completion/Repair Defaults

The Borrower's failure to complete required repairs in the aggregate in excess of the lesser of \$50,000 or 10% of current UPB under a Loan Agreement, a Completion/Repair Agreement, a Replacement Reserve and Security Agreement, or any other Loan Document or agreement binding upon the Borrower.

### 3. Mechanics', Materialman's or Judgment Liens

The Borrower's failure to release or bond off a mechanics', materialman's or judgment lien that has been filed against the Property.

### 4. Failure to Maintain Insurance

The Borrower's failure to maintain all insurance coverages as required by [Part II, Chapter 5: Property and Liability Insurance](#) and the applicable Loan Agreement or Security Instrument for the Mortgage Loan.

### 5. Failure to Maintain the Property

The Borrower's failure to maintain the Property as required by the applicable Loan Agreement or Security Instrument for the Mortgage Loan, as evidenced by outstanding code violations or municipal code enforcement actions pending against the Property for immediately hazardous conditions (such as inadequate fire exits, rodents, lead-based paint, lack of heat, hot water, electricity, or gas, etc.), uninhabitable units on the Property, the failure to promptly make repairs to the Property following a casualty loss, demolition of Improvements on the Property, or waste or abandonment of the Property



or its Improvements. For purposes of reporting under [Part V, Chapter 7: Non-Performing Mortgage Loans, Section 704.01: Notice of Default](#), “uninhabitable units” do not include a unit where a tenant has vacated and the unit is being made ready, so long as the Borrower is promptly addressing the condition of the vacated unit and in the process of making it ready for leasing.

## **6. Change in Use**

The Borrower’s alteration of the Property or change in use, unit mix or other characteristics of the Property, or converting any individual dwelling unit to commercial use, or initiating or acquiescing to a change in the zoning classification of the Property, or establishing any condominium or cooperative regime with respect to the Property, or subdividing the Property, without Fannie Mae approval as required by the Loan Documents.

## **7. Environmental Conditions**

The Borrower’s failure to comply with its Operations and Maintenance (“O&M”) Agreement for the Property, or the existence of any environmentally hazardous materials that would constitute a Prohibited Activity or Condition under the Loan Agreement, Security Instrument, or other Loan Documents.

## **8. Non-compliance with Laws**

Any violation of laws, ordinances or regulations by the Borrower and/or the Property, as required by [Part V, Chapter 3: Custodial Account Requirements, Section 306: Interest-Bearing Accounts](#).



# Glossary

## B

**Borrower** Person who is the obligor under 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

## I

**Improvements** Buildings, structures, improvements, and alterations, including the multifamily housing dwellings, now constructed or hereafter constructed or placed on the land upon which the Property is located, together with all fixtures (as defined in the Uniform Commercial Code).

## L



## 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**

## 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**

## Performance Default

Failure of a Borrower to perform any promise or covenant within any applicable grace periods under the related Mortgage Loan other than a failure that constitutes a Payment Default.

### **Synonyms**

- Performance Defaults

## 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** MBS, PFP MBS, or REMIC.

**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

**T**

**Transfer/Assumption** Transaction resulting in a change in the ownership of the Borrower or Property.

**Synonyms**

- Transfers/Assumptions

**U**

**UPB** Unpaid Principal Balance