



Multifamily Selling and Servicing Guide

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Chapter 14 Supplemental Mortgage Loans

Section 1401 Description

Requirements

A Fannie Mae Supplemental Mortgage Loan is available for Properties with a Pre-Existing Mortgage Loan.

A non-Fannie Mae Subordinate Loan is only permitted for MAH Properties per [Part III, Chapter 7: Multifamily Affordable Housing Properties](#).

For Moderate Rehabilitation Supplemental Mortgage Loans, see [Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans](#).

Section 1402 Supplemental Mortgage Loans

1402.01 Description

Requirements

| Product Description | |
|---------------------|---|
| Lender Eligibility | You must be the Servicer of all Pre-Existing Mortgage Loans on the Property. |
| Ineligible Products | Hybrid ARM Loan |
| Loan History | Pre-Existing Mortgage Loan is not on the current Fannie Mae Watchlist. |
| Origination Date | At least 12 months must elapse between the origination dates of the most recent Pre-Existing Mortgage Loan and the Supplemental Mortgage Loan, unless the Loan Documents expressly permit a shorter time. |



| Product Description | |
|---|---|
| Maximum Number of Supplemental Mortgage Loans | <p>Only 1 Supplemental Mortgage Loan is permitted during the Senior Mortgage Loan term unless:</p> <ul style="list-style-type: none"> • it is a Moderate Rehabilitation Supplemental Mortgage Loan; • it is a Green Rewards Supplemental Mortgage Loan where 100% of the proceeds are used to implement selected Efficiency Measures; or • the Property is sold to an unrelated new Borrower who assumes the Pre-Existing Mortgage Loan, and the closing and funding of the new Supplemental Mortgage Loan occurs concurrently with the Property sale and Pre-Existing Mortgage Loan assumption. |
| Minimum Supplemental Loan Term | <p>5 years provided that:</p> <ul style="list-style-type: none"> • for Pre-Existing Mortgage Loans with a balloon payment at the Maturity Date, the Maturity Date of the Supplemental Mortgage Loan must not be before that of any Pre-Existing Mortgage Loan; and • for fully amortizing Pre-Existing Mortgage Loans, the Maturity Date of the Supplemental Mortgage Loan must not be before the latest Prepayment Premium Period End Date of any Pre-Existing Mortgage Loan. |
| Mortgage Loan Amount | <p>Except per Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402.03: Loan Amount, you must determine the Underwritten NCF, Underwritten DSCR, and LTV per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products in Part III.</p> |



| Product Description | |
|---|--|
| Replacement Reserve, Tax, and Insurance Escrows | <p>You must:</p> <ul style="list-style-type: none">• Calculate the Replacement Reserve, tax, and insurance escrows on the resulting Tier of the combined Pre-Existing Mortgage Loan and Supplemental Mortgage Loan.• Ensure that escrow funding established with the Pre-Existing Mortgage Loans does not decrease or cease.• Adjust the funding when necessary to meet current Tier 2 requirements for any Tier Dropping Supplemental Mortgage Loan if the combined Tier is Tier 2. |
| Cross-Default | Must be cross-defaulted with all Pre-Existing Mortgage Loans. |
| Interest Rate Type | <ul style="list-style-type: none">• Fixed rate, if the Pre-Existing Mortgage Loan has a fixed rate.• Fixed or variable rate, if the Pre-Existing Mortgage Loan has a variable rate. |
| UCC Financing Statements | <p>No new UCC Financing Statement is required for the Supplemental Mortgage Loan.</p> <p>If the Lien of the Senior Mortgage Loan is released before the Supplemental Mortgage Loan is repaid in full, you must file a UCC Financing Statement for the Supplemental Mortgage Loan in the appropriate public records office.</p> |

Guidance

You may increase Replacement Reserve, tax, and insurance escrow funding for a Supplemental Mortgage Loan if the Tier is unchanged from the Pre-Existing Mortgage Loans.

1402.02 Coterminous and Non-Coterminous

Guidance



A Supplemental Mortgage Loan may have a Maturity Date that is either coterminous or non-coterminous with the Maturity Date of the Senior Mortgage Loan.

The Prepayment Premium Period End Date of a Supplemental Mortgage Loan need not coincide with the Prepayment Premium Period End Date of any Pre-Existing Mortgage Loan.

Requirements

You must resubordinate any existing, non-coterminous Supplemental Mortgage Loan when refinancing a maturing Senior Mortgage Loan with Fannie Mae.

1402.03 Loan Amount

1402.03A Maximum Loan Amount

Requirements

The maximum Supplemental Mortgage Loan amount equals the lowest Mortgage Loan amount calculated per Sections 1402.03.B - 1402.03.D of this Chapter.

1402.03B Calculating the Debt Service

Requirements

You must calculate the Supplemental Mortgage Loan amount based on the combined debt service amounts of all Pre-Existing Mortgage Loans plus the Supplemental Mortgage Loan, as outlined in the following tables.

| Pre-Existing Mortgage Loans | |
|------------------------------|--|
| If the Interest Rate Type is | Use an amortizing Debt Service Amount based on the |
| Fixed Rate | Gross Note Rate. |
| Adjustable Rate | <ul style="list-style-type: none">• origination loan amount;• amortization term; and• Variable Underwriting Rate per the applicable Part III Chapters. |



| Supplemental Mortgage Loan | |
|------------------------------|--|
| If the Interest Rate Type is | Use an amortizing Debt Service Amount based on the greater of the Gross Note Rate or the |
| Fixed Rate | applicable Underwriting Interest Rate Floor per Form 4660. |
| Adjustable Rate | Variable Underwriting Rate per the applicable Part III Chapters. |

1402.03C Calculating the DSCR and LTV

Requirements

To determine the Supplemental Mortgage Loan amount, you must apply the Form 4660 DSCR and LTV requirements as follows:

| Supplemental Mortgage Loan | |
|----------------------------|--|
| DSCR | The combined debt service of <ul style="list-style-type: none"> • all Pre-Existing Mortgage Loans, plus • the Supplemental Mortgage Loan. |
| LTV | The combined <ul style="list-style-type: none"> • aggregate UPB of all Pre-Existing Mortgage Loans, plus • the principal amount of the Supplemental Mortgage Loan. |

1402.03D New Loan Test

Requirements

If the Senior Mortgage Loan Maturity Date is 5 years or less after the proposed Supplemental Mortgage Loan Origination Date, you must perform a New Loan Test to confirm that the combined UPB of all Pre-Existing Mortgage Loans and the Supplemental Mortgage Loan does not exceed the maximum loan amount calculated using the applicable Pricing and Underwriting Tier for a new fixed rate Mortgage Loan.

You must base the New Loan Test calculations on the current applicable minimum DSCR and maximum LTV per Form 4660 for a Tier 2, cash out, Supplemental Mortgage Loan using the higher of the:

- current interest rate of the Senior Mortgage Loan; or



- current applicable Underwriting Interest Rate Floor for a Tier 2 Mortgage Loan
 - with a 10-year loan term, and
 - for a property located in a Nationwide market (regardless of the Property’s actual location), per Form 4660.

1402.04 Tier Dropping

1402.04A Designating

Requirements

If you designated a Senior Mortgage Loan as eligible for a Tier Dropping Supplemental Mortgage Loan, then you must also designate all Supplemental Mortgage Loans secured by that Property as eligible for Tier Dropping Supplemental Mortgage Loans.

Operating Procedures

- For an MBS Mortgage Loan originated before September 1, 2007, you must have designated it as eligible for a Tier Dropping Supplemental Mortgage Loan at the time of Commitment of each Pre-Existing Mortgage Loan.
- For Pools issued on or after August 1, 2001, the designation for Tier Dropping Supplemental Mortgage Loans eligibility must be disclosed on Annex A to the Prospectus.

1402.04B Eligibility

Requirements

| Tier Dropping Eligibility | |
|---|---|
| If the Pre-Existing Mortgage Loan is... | It is eligible for a Tier Dropping Supplemental Mortgage Loan if... |
| Cash | <p>the combined Pre-Existing Mortgage Loans and Supplemental Mortgage Loan meet the Form 4660</p> <ul style="list-style-type: none"> • minimum applicable DSCR for Tier 2 Mortgage Loans, and • maximum applicable LTV for Tier 2 Mortgage Loans. |



| Tier Dropping Eligibility | |
|---|--|
| If the Pre-Existing Mortgage Loan is... | It is eligible for a Tier Dropping Supplemental Mortgage Loan if... |
| MBS | <ul style="list-style-type: none"> • it was designated as eligible for a Tier Dropping Supplemental Mortgage Loan; and • the combined Pre-Existing Mortgage Loans and Supplemental Mortgage Loan meet the Form 4660 <ul style="list-style-type: none"> - minimum applicable DSCR for Tier 2 Mortgage Loans, and - maximum applicable LTV for Tier 2 Mortgage Loans. |

1402.04C Ineligible Mortgage Loans

Requirements

ARM Loans cannot be Tier Dropping Supplemental Mortgage Loans.

1402.05 Streamlined Underwriting

1402.05A Property

Requirements

| Streamlined Underwriting | |
|--------------------------|---|
| Zoning | <p>You must perform a non-conforming use analysis and comply with Part II, Chapter 3: Legal Compliance, Section 301: Zoning and Legal Non-Conforming Uses if the Property was rezoned after the Mortgage Loan Origination Date, either</p> <ul style="list-style-type: none"> • causing it to become a non-conforming use, or • restricting the right to rebuild an existing non-conforming use. <p>A new zoning and non-conforming use analysis is not required if the zoning has not changed.</p> |
| Appraisal | You must obtain a new Appraisal. |



| Streamlined Underwriting | |
|--------------------------------------|--|
| Property Management | If there has been or will be a Property management change, you must comply with Part II, Chapter 1: Attributes and Characteristics, Section 108.01: Property Management . |
| Property Condition Assessment Report | <p>You must obtain a PCA Report if the Supplemental Mortgage Loan Property inspection reveals any adverse change in property condition or life safety issues.</p> <p>A PCA Report is not required if:</p> <ul style="list-style-type: none">• there has been no adverse change;• the existing PCA Report is less than 3 years old;• all immediate repairs identified in the existing PCA Report have been satisfactorily completed; and• the most recent Property inspection indicates an overall rating of 1 or 2. |
| Replacement Reserves | <ul style="list-style-type: none">• If the PCA Report indicates a need to increase the existing or fund an initial Replacement Reserve, you must ensure the funding by amending the Replacement Reserve Schedule.• Even if there is no funding or only partial funding for a Pre-Existing Mortgage Loan, you must fully fund the Replacement Reserve if the combined DSCR and LTV for all Pre-Existing Mortgage Loans and the Supplemental Mortgage Loan is Tier 2. |



| Streamlined Underwriting | |
|-------------------------------------|---|
| Environmental Site Assessment (ESA) | <p>You must obtain a new or updated ESA and comply with Part II, Chapter 5: Property and Liability Insurance, Section 502: Environmental Matters unless all the following are met:</p> <ul style="list-style-type: none">• an ESA was performed for a Pre-Existing Mortgage Loan;• the Borrower executes an Environmental Indemnity Agreement (Form 6085 series);• an environmental Transaction Screen using ASTM E-1528 Standard Practice for Limited Environmental Due Diligence is performed and finds no potential environmental concerns;• you confirm that any disclosed Prohibited Activities or Conditions per the Loan Documents are adequately addressed through an O&M Plan being implemented at the Property; and• the Borrower certifies, and you confirm, that all appropriate O&M Plans are in place and being fully and properly implemented. |
| Property and Liability Insurance | <p>You must base the required amounts and coverages of all property and liability insurance on the combined UPB of the Supplemental Mortgage Loan and all Pre-Existing Mortgage Loans.</p> |
| Title Insurance | <p>You must ensure the Borrower obtains a new title insurance policy.</p> |

1402.05B Borrower, Guarantor, Key Principals, and Principals

Requirements

You must:

- identify all Key Principals and Principals of the Borrower and Guarantor;
- confirm the original underwriting of the Borrower, Guarantor, and each Key Principal and Principal per [Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals](#);
- obtain updates to the:
 - financial statements for all parties relevant to the transaction;
 - Multifamily Underwriting Certificates ([Form 6460](#)) for



the Borrower, Guarantor, and each Key Principal;

- organizational documents of the Borrower, Guarantor, and each Key Principal; and
- good standing certificate from the jurisdiction where an entity Borrower and Guarantor are organized;
- confirm that the organizational structure of the Borrower, Guarantor, and each Key Principal complies with [Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals](#); and
- confirm that no unauthorized change has been made to the organizational structure or organizational documents of the Borrower or the Guarantor.

Operating Procedures

You must contact Fannie Mae per [Part V, Chapter 7: Non-Performing Mortgage Loans, Section 704: Notice of Default; Reservation of Rights](#) if there has been:

- an unauthorized Transfer/Assumption; or
- any change in the organizational structure of the Borrower, Guarantor, or any Key Principal or Principal.



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

ASTM

American Society for Testing Materials

B

Borrower

Person who is the obligor under the Note.

Synonyms

- Borrowers
- Borrower's

C

Commitment

Contractual agreement between Fannie Mae and the Lender where Fannie Mae agrees to buy a Mortgage Loan from the Lender at a future date in exchange for an MBS, or at a specific price for a Cash Mortgage Loan, and the Lender agrees to Deliver that Mortgage Loan to Fannie Mae.

Synonyms

- Committed
- Commitments

E



Efficiency Measures

Energy- and water-efficiency measures that the Borrower agrees to implement, and which project a reduction in the Property's annual energy or water consumption.

Synonyms

- Efficiency Measure

Environmental Site Assessment

Report (either a Phase I ESA or a Phase II ESA) identifying whether a Property is subject to Recognized Environmental Conditions or Business Environmental Risks.

Synonyms

- ESA

F

Form 4660

Multifamily Underwriting Standards identifying Pre-Review Mortgage Loans and containing the minimum underwriting requirements (e.g., debt service coverage ratio, loan to value ratio, interest only, underwriting floors, etc.) for all Mortgage Loans.

Synonyms

- Multifamily Underwriting Standards

G

Gross Note Rate

Interest rate stated in the Loan Documents.

Guarantor

Key Principal or other Person who executes a Payment Guaranty, a Non-Recourse Guaranty, or any other guaranty in connection with the Mortgage Loan.

Synonyms

- Guarantors

H



Hybrid ARM Loan

Mortgage Loan with a total term of 30 years, comprised of an initial term when interest accrues at a fixed rate, and which automatically converts to a term where interest accrues at an adjustable rate.

Synonyms

- Hybrid ARM Loans

K

Key Principal

Person(s) who control and/or manage the Borrower or the Property, are critical to the successful operation and management of the Borrower and the Property, and who may be required to provide a Guaranty.

Synonyms

- Key Principals

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

Maturity Date Date all amounts due and owing under the Mortgage Loan become fully due and payable per the Loan Documents.

Synonyms

- Maturity Dates

MBS Mortgage-Backed Security

MBS Mortgage Loan Mortgage Loan purchased by Fannie Mae in exchange for an issued MBS backed by the Mortgage Loan.

Synonyms

- MBS Mortgage Loans

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 Origination Date Date the Lender funds a Mortgage Loan to the Borrower.

Synonyms

- Mortgage Loan's Origination Date
- Origination Date



P

| | |
|------------------------------------|---|
| PCA Report | Property Condition Assessment Report documenting the findings of a PCA. |
| Pre-Existing Mortgage Loan | Multifamily residential real estate loan secured by Liens against the Property having higher priority than the Lien securing the Subordinate Loan purchased by Fannie Mae. Synonyms <ul style="list-style-type: none">• Pre-Existing Mortgage Loans |
| Prepayment Premium Period End Date | Last date on which a Borrower owes a Prepayment Premium for a voluntary Mortgage Loan prepayment. |
| Pricing and Underwriting Tier | Tier 1, Tier 2, Tier 3, or Tier 4 per the Multifamily Underwriting Standards (Form 4660). |
| Principal | Person who owns or controls specified interests in the Borrower per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 303: Key Principals, Principals, and Guarantors . Synonyms <ul style="list-style-type: none">• Principals |
| 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 <ul style="list-style-type: none">• 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

Senior Mortgage Loan

Senior loan purchased by Fannie Mae.

Synonyms

- Senior Mortgage Loans



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

Synonyms

- Servicers

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

Supplemental Mortgage Loan Mortgage Loan purchased by Fannie Mae that is subordinated to, and has a Mortgage Loan Origination Date after, the Senior Mortgage Loan that is also owned by Fannie Mae.

Synonyms

- Supplemental Mortgage Loans

T

Tier Dropping Supplemental Mortgage Loan A Supplemental Mortgage Loan where

- the combined Underwritten DSCR of the Supplemental Mortgage Loan and all Pre-Existing Mortgage Loans is below the minimum Underwritten DSCR of the original underwriting Tier of the Senior Mortgage Loan, or
- the combined LTV of the Supplemental Mortgage Loan and all Pre-Existing Mortgage Loans is above the maximum LTV of the original underwriting Tier of the Senior Mortgage Loan.

Synonyms

- Tier Dropping Supplemental Mortgage Loans



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

Synonyms

- Transfers/Assumptions

U

UCC Uniform Commercial Code

UPB Unpaid Principal Balance

V

Variable Underwriting Rate Rate for Structured ARM Mortgage Loans per [Part III, Chapter 12: Structured Adjustable Rate Mortgage \(SARM\) Loans, Section 1202: Underwriting.](#)

W

Watchlist Mortgage Loan or Property exhibiting heightened credit risk as identified by the Lender or Fannie Mae.