



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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## Chapter 14 Supplemental Mortgage Loans

### Section 1401 Description

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#### 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

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#### 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"><li>• it is a Moderate Rehabilitation Supplemental Mortgage Loan;</li><li>• it is a Green Rewards Supplemental Mortgage Loan where 100% of the proceeds are used to implement selected Efficiency Measures; or</li><li>• 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.</li></ul>
Minimum Supplemental Loan Term	<p>5 years provided that:</p> <ul style="list-style-type: none"><li>• 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</li><li>• 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.</li></ul>
Mortgage Loan Amount	<p>Except per <a href="#">Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402.03: Loan Amount</a>, you must determine the Underwritten NCF, Underwritten DSCR, and LTV per <a href="#">Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis</a> and the applicable products in <a href="#">Part III</a>.</p>



Product Description	
Replacement Reserve, Tax, and Insurance Escrows	<p>You must:</p> <ul style="list-style-type: none"><li>• Calculate the Replacement Reserve, tax, and insurance escrows on the resulting Tier of the combined Pre-Existing Mortgage Loan and Supplemental Mortgage Loan.</li><li>• Ensure escrow funding established with the Pre-Existing Mortgage Loans does not cease.</li><li>• 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.</li></ul>
Cross-Default	Must be cross-defaulted with all Pre-Existing Mortgage Loans.
Interest Rate Type	<ul style="list-style-type: none"><li>• Fixed rate, if the Pre-Existing Mortgage Loan has a fixed rate.</li><li>• Fixed or variable rate, if the Pre-Existing Mortgage Loan has a variable rate.</li></ul>
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"><li>• Delivered Mortgage Loan amount;</li><li>• amortization term; and</li><li>• Maximum Note Rate per the applicable Part III Chapters.</li></ul>



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	Maximum Note 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"> <li>• all Pre-Existing Mortgage Loans, plus</li> <li>• the Supplemental Mortgage Loan.</li> </ul>
LTV	The combined <ul style="list-style-type: none"> <li>• aggregate UPB of all Pre-Existing Mortgage Loans, plus</li> <li>• the principal amount of the Supplemental Mortgage Loan.</li> </ul>

### 1402.03D New Loan Test

#### Requirements

For a Tier 2 Supplemental Mortgage Loan, if the Senior Mortgage Loan Maturity Date is 5 years or less after the Supplemental Mortgage Loan Origination Date, you must perform a New Loan Test to confirm the combined UPB of all Pre-Existing Mortgage Loans plus the Supplemental Mortgage Loan does not exceed the maximum loan amount for a new fixed rate, first Lien, cash-out Mortgage Loan.

Term	New Loan Test Requirement
Underwriting Tier	Tier 2
Minimum DSCR	Per Form 4660



Term	New Loan Test Requirement
Maximum LTV	Per Form 4660
Maturity	10 years
Market Classification	Based on Property's Location
Interest Rate	Higher of: <ul style="list-style-type: none"><li>• an interest rate using the highest Total Credit Fees Range in the current "Indicative Pricing" table in DUS Gateway minus any applicable "Optional Reduction"; or</li><li>• the Underwriting Interest Rate Floor per Form 4660 , if applicable.</li></ul>

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

#### 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	
Appraisal	You must obtain a new Appraisal.
Property Management	If there has been or will be a Property management change, you must comply with <a href="#">Part II, Chapter 1: Attributes and Characteristics, Section 112.01: Property Management.</a>



Streamlined Underwriting	
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"><li>• there has been no adverse change;</li><li>• the existing PCA Report is less than 3 years old;</li><li>• all Immediate Repairs identified in the existing PCA Report have been satisfactorily completed; and</li><li>• the most recent Property inspection indicates an overall rating of 1 or 2.</li></ul>
Replacement Reserves	<ul style="list-style-type: none"><li>• If the PCA Report indicates a need to modify the existing or fund an initial Replacement Reserve, you must ensure the funding by amending the Replacement Reserve Schedule.</li><li>• 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.</li></ul>



Streamlined Underwriting	
Environmental Site Assessment (ESA)	<p>You must obtain a new or updated ESA and comply with <a href="#">Part II, Chapter 5: Property and Liability Insurance, Section 502: Environmental Matters</a> unless all the following are met:</p> <ul style="list-style-type: none"><li>• an ESA was performed for a Pre-Existing Mortgage Loan;</li><li>• an Environmental Professional performs an environmental database review and identifies no<ul style="list-style-type: none"><li>- potential environmental concerns (as defined in ASTM E1528 - Standard Practice for Limited Environmental Due Diligence: Transaction Screen), or</li><li>- adverse conditions requiring further due diligence;</li></ul></li><li>• the Borrower executes an Environmental Indemnity Agreement (<a href="#">Form 6085</a>);</li><li>• you confirm that any disclosed Prohibited Activities or Conditions per the Loan Documents are adequately addressed through an O&amp;M Plan being implemented at the Property; and</li><li>• the Borrower certifies, and you confirm, that all appropriate O&amp;M Plans are in place and being fully and properly implemented.</li></ul>
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 series](#)) 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

If there was...	You must...
<ul style="list-style-type: none"><li>• an unauthorized Transfer/Assumption ; or</li><li>• any change in the organizational structure of the Borrower, Guarantor, or any Key Principal or Principal</li></ul>	notify Fannie Mae per: <ul style="list-style-type: none"><li>• Part VI, Chapter 3: Non-Performing Primary Risk Mortgage Loans, Section 305: Notice of Default ; or</li><li>• Part VI, Chapter 5: Non-Performing Secondary Risk Mortgage Loans, Section 505: Notice of Default .</li></ul>



# Glossary

## A

Appraisal

Written statement independently and impartially prepared by a qualified Appraiser stating an opinion of the Property's market value

- as of a specific date, and
- supported by the presentation and analysis of relevant market information.

### Synonyms

- Appraisals
- Appraisal's

ASTM

American Society for Testing Materials

## B

Borrower

Person who is the obligor per the Note.

### Synonyms

- Borrowers
- Borrower's

## C

Commitment

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

### Synonyms

- Committed
- Commitments

## D



## DUS Gateway

Multifamily pre-acquisition system, or any successor systems, recording deal registration, Pre-Review and/or waiver tracking, Mortgage Loan Commitments, and decision records.

## E

### Efficiency Measures

Energy- and water-efficiency measures that the Borrower agrees to implement per the Multifamily Loan Agreement to qualify as a Green Rewards Mortgage Loan, and which project a reduction in the Property's annual energy or water consumption.

#### **Synonyms**

- Efficiency Measure

### Environmental Site Assessment

Investigation and resulting report (Phase I ESA or Phase II ESA) conducted per Environmental Due Diligence Requirements ([Form 4251](#)), identifying if a Property has Recognized Environmental Conditions or Business Environmental Risks.

#### **Synonyms**

- ESA
- Environmental Site Assessments

## F

### Form 4660

Multifamily Underwriting Standards identifying Pre-Review Mortgage Loans and containing the 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 executing a

- Payment Guaranty,
- Non-Recourse Guaranty, or
- any other Mortgage Loan guaranty.

### **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 who

- controls and/or manages the Borrower or the Property,
- is critical to the successful operation and management of the Borrower and the Property, and/or
- may be required to provide a Guaranty.

### **Synonyms**

- Key Principals
- Key Principal's

## L

### Lender

Person Fannie Mae approved 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 Fannie Mae-approved documents evidencing, securing, or guaranteeing the Mortgage Loan.

**Synonyms**

- Loan Document
- Mortgage Loan Document
- Mortgage Loan Documents

## M

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

**Synonyms**

- Maturity Dates

**Maximum Note Rate** Equals the sum of the:

- minimum Cap Strike Rate as set by Fannie Mae; and
- Mortgage Loan margin equal to the sum of the
  - Investor spread,
  - Guaranty Fee, and
  - Servicing Fee.

**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's

## Mortgage Loan Origination Date

Date you fund 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**

- Pre-Existing Mortgage Loans

## Prepayment Premium Period End Date

Last date when a Borrower owes a Prepayment Premium for a voluntary Mortgage Loan prepayment.

## 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**

- Principals



**Property** Multifamily residential real estate securing the Mortgage Loan, including the

- fee simple or Leasehold interest,
- Improvements, and
- personal property (per the Uniform Commercial Code).

**Synonyms**

- Properties
- Property's

**Property Condition Assessment** Assessment of the Property's physical condition and historical operation.

**Synonyms**

- PCA
- PNA
- Physical Needs Assessment
- PCAs

## R

**Replacement Reserve** Custodial Account the Borrower funds during the Mortgage Loan term for Replacements.

**Synonyms**

- Replacement Reserves

**Replacement Reserve Schedule** The Required Replacement Schedule to the Multifamily Loan Agreement ([Form 6001 series](#)) and the applicable parts of the Multifamily Loan Agreement (or other agreement approved by Fannie Mae), that evidence the:

- Borrower's agreement to replace identified capital items and perform required maintenance;
- terms for funding the identified capital item replacement and maintenance; and
- disbursement of Replacement Reserve funds.

**Synonyms**

- Replacement Reserve Schedules

## S



## Senior Mortgage Loan

Senior loan purchased by Fannie Mae.

### **Synonyms**

- Senior Mortgage Loans

## Servicer

Primary Person servicing the Mortgage Loan, including

- the originator,
- seller, or
- a third party.

### **Synonyms**

- Servicers
- Servicer's

## 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 changing the ownership of the Borrower or Property.

**Synonyms**

- Transfers/Assumptions

## U

UCC

Uniform Commercial Code

UPB

Unpaid Principal Balance

**Synonyms**

- UPBs

## W

Watchlist

The risk rating classification if you or Fannie Mae determine the Mortgage Loan has heightened credit risk.