



Multifamily Selling and Servicing Guide

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Summary of Changes

HIGHLIGHTS

Effective for Mortgage Loans Committed as of March 4, 2024, updated Guide requirements, forms, and underwriting certificates for Brokered Transactions.

Primary Changes

- Updated Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals adding new requirements:
 - for all Mortgage Loans, updated representations by the Borrower, Guarantor, and KP regarding:
 - all financial statements' and schedules'
 - dating,
 - preparation by the certifying party or its independent accounting firm, and
 - accuracy; and
 - Property condition information provided to you or the PCA consultant; and
 - for any Brokered Transactions, requiring:
 - direct delivery to you of
 - financial statements and schedules, and
 - Property condition information; and
 - your certification that you
 - obtained and reviewed all underwriting information,
 - underwrote the Mortgage Loan,
 - engaged third-party reports/consultants, and
 - entered accurate data.
- Updated Part II, Chapter 4: Inspections and Reserves, adding new requirements to ensure:
 - for all Mortgage Loans, your qualified employee



- performs a physical Property inspection, and
- completes the MBA Standard Inspection Form;
- for any Brokered Transaction, you order
 - all third-party underwriting reports, and
 - a Brokered Transaction Inspection per Form 4229;
- you review and reconcile the Brokered Transaction Inspection report against the
 - PCA, and
 - MBA Standard Inspection Form;
- no Delivery of a Mortgage Loan if the Brokered Transaction Inspection's overall rating is 4 or 5; and
- you upload required documents into DocWay at Delivery.
- Updated Part III, Chapter 9: Small Mortgage Loans, Section 907.01, adding new requirements for site inspections by a Lender or other third-party.
- Created:
 - new Glossary terms for
 - Brokered Transaction, and
 - Mortgage Loan Broker; and
 - a new Form 4229 for ordering a required Brokered Transaction Inspection.
- Revised Form 4636.TA:
 - for a Transfer/Assumption involving a Brokered Transaction, you must:
 - order a Brokered Transaction Inspection for a Property with an overall rating other than 1 on your most recent inspection;
 - upload any Brokered Transaction Inspection report to MAMP; and
 - submit for Fannie Mae's approval any Transfer/Assumption involving a Brokered Transaction with a required Brokered Deal Inspection overall rating of 4 or 5; and
 - submit for Fannie Mae's approval any Transfer/Assumption of a Mortgage Loan including Hard Preferred Equity in the ownership structure of the Borrower at Delivery.
- Updated the following underwriting documents to add the Borrower, Guarantor, and Key Principal/Principal certifications:



- Multifamily Underwriting Certificate (Borrower) (Form 6460.Borrower);
- Multifamily Underwriting Certificate (Guarantor) (Form 6460.Guarantor);
- Multifamily Underwriting Certificate (Key Principal) (Form 6460.Key Principal); and
- Multifamily Mortgage Loan Delivery Package Table of Contents-Folder II (Form 6502.Folder II).

Questions

Please contact the Fannie Mae Deal Team with any questions.



Chapter 3

Borrower, Guarantor, Key Principals, and Principals

Section 301

Generally

Requirements

You must:

- perform a risk assessment of the [Borrower, Guarantor, Key Principals, and Principals](#) based solely on objective credit standards; and
- ensure all:
 - [Potential Red Flags for Mortgage Fraud and Other Suspicious Activity](#) were evaluated; and
 - unresolved red flags were reported per [Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance](#).

Prohibited practices include:

- basing the risk assessment on any characteristic protected by any fair housing or fair lending law, including
 - race,
 - color,
 - religion,
 - sex,
 - handicap,
 - familial status, or
 - national origin of the prospective
 - [Borrowers](#),
 - [Guarantors](#),
 - [Key Principals](#),
 - [Principals](#),
 - [Property occupants](#), or
 - residents of the [Property's](#) neighborhood; or
- using



- unsupported assumptions,
- personal opinions, or
- unsupported perceptions.

➔ Guidance

You should:

- Complete a credit review by analyzing information about their
 - organizational structure,
 - multifamily business experience and qualifications,
 - general credit history, and
 - current and prospective financial condition.
- Ensure the financial strength, experience, qualifications, and credit history of the **Borrower**, **Guarantor**, **Key Principals**, and **Principals** support the size, complexity, structure, and risk of the transaction.

Section 302 Borrower Organizational Structure

302.01 Single-Asset Entity

Requirements

You must ensure that

- the **Borrower** is a domestic single-asset entity, and
- if the **Borrower** is ultimately owned by foreign persons or entities, it has at least 1 domestic tier of ownership.

➔ Guidance

As you analyze the **Borrower** and its organizational documents to confirm that it is a single-asset entity, consider the following questions:

- Can the **Borrower** acquire any additional real property, personal property, or assets?
- Can the **Borrower** participate in any business other than managing



and operating the Property?

- Are the Borrower's assets or funds commingled with anyone else's? If so, can these assets or funds be separated and identified?
- Are the Borrower's financial statements, accounting records, and other organizational documents maintained with anyone else's?
- Except for the Mortgage Loan, has the Borrower assumed, guaranteed, or obligated itself to cover anyone else's liabilities?

Requirements

If the Borrower owns more than a single asset, the Borrower may still qualify as a single asset entity if you:

- Obtain an operating statement for each real property owned.
- Obtain proof that the Borrower has no existing debt secured by a Lien on any of the Borrower's real property, other than a Mortgage Loan purchased by Fannie Mae.
- Obtain proof that the Borrower does not have any direct or indirect equity interest subject to mezzanine financing.
- Ensure that the Loan Documents prohibit the Borrower from
 - acquiring any additional debt (except for supplemental debt on existing Fannie Mae loans),
 - increasing any existing debt, or
 - acquiring any additional real property.

Guidance

As you analyze the Borrower that owns more than a single asset, you should consider whether its other real estate assets are only

- multifamily properties, or
- other types of real estate that do not pose an environmental risk to the Borrower.

302.02 Co-Tenant Borrowers

Requirements



You must ensure that any **Co-Tenant Borrower** meets these eligibility requirements:

- the **Borrower** has no more than 10 co-tenants;
- no co-tenant is an individual;
- each co-tenant is a single-asset entity complying with **Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302.01: Single-Asset Entity**; and
- each co-tenant has jointly and severally executed the **Loan Documents**.

302.02A Tenancy-in-Common Agreement

Requirements

You must ensure that a validly executed Tenancy-in-Common Agreement is in place prior to or at the **Mortgage Loan** closing.

You must review the agreement to ensure that:

- Each co-tenant is bound by the terms of the agreement.
- The **Property** has a manager of its day-to-day business and affairs, which can be
 - a single co-tenant (or the **Key Principal** of such co-tenant) known as the “co-tenant representative”, or
 - a validly-appointed property manager.
- Distributions to the co-tenant representative are subordinate to
 - all payments under any **Mortgage Loan** secured by a **Lien** on the **Property**, and
 - the terms and conditions of any such **Mortgage Loan**.

Guidance

As you analyze the Tenancy-in-Common Agreement, consider the following questions. The term “co-tenant” also includes any **Key Principal** who has the rights of the co-tenant.

Representation

- Have the **Co-Tenant Borrowers** given the co-tenant representative



the power to deal with the Lender through the Tenancy-in-Common Agreement or an irrevocable power-of-attorney?

- Has each Co-Tenant Borrower waived its right to reside in the Property?

Buy outs

- Does each Co-Tenant Borrower have buy out rights to any other co-tenant?
- Is each Co-Tenant Borrower financially able to buy out any other co-tenant?

Communication

- Does each Co-Tenant Borrower have a name, address, telephone number, and percentage of ownership interest listed?
- Has each Co-Tenant Borrower agreed to promptly notify all other Co-Tenant Borrowers and you if their address or telephone number changes?
- Has a single Key Principal of the co-tenant representative agreed to receive any communication from you on behalf of all Co-Tenant Borrowers?

302.02B Key Principal Execution of Guaranty

Requirements

You must ensure that:

- each Co-Tenant Borrower names at least 1 Key Principal; and
- if a Guaranty is required per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 309: Execution of Non-Recourse Guaranty, a Key Principal from each Co-Tenant Borrower must become a Guarantor and execute either a Non-Recourse Guaranty or Payment Guaranty.

302.03 Joint and Several Borrowers with Multiple Properties

Requirements

If a Mortgage Loan not in a Credit Facility is secured by multiple Properties and any Property is owned by a different Borrower, you must



require each Borrower to:

- execute a single set of Loan Documents with joint and several liability for the Mortgage Loan;
- comply with the “single purpose entity” requirements per Modifications to Multifamily Loan and Security Agreement (Co-Borrowers) (Form 6274);
- be owned by the same Persons having the same percentage ownership interests (whether direct or indirect);
- be Controlled by the same Sponsor or Key Principal;
- execute Form 6274, restricting Property Transfer/Assumption or release during the Mortgage Loan term;
- execute an acceptable Contribution Agreement complying with Form 6274; and
- if separate Security Instruments are recorded to encumber Properties in different counties, execute separate Modifications to Security Instrument (Co-Borrowers) (Form 6322) for each Security Instrument.

Each Property securing the Mortgage Loan must:

- be in the same State; and
- comply with Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership.

Section 303

Key Principals, Principals, and Guarantors

Requirements

For every Mortgage Loan, you must:

- Identify and underwrite any Guarantor and all Key Principals and Principals of the Borrower.
- Ensure the Guarantor
 - is not a foreign person or a foreign entity, and
 - either has an ownership interest in the Borrower or ensure that the Guarantor has adequate consideration to enter into the Guaranty.

You must identify the Principals based on the aggregate of all direct and



indirect ownership interests in the Borrower held per the following table.

If the Borrower is a...	Then a Principal is...
General Partnership or Joint Venture	any general partner or joint venturer.
Limited Partnership	all general partners and any Person who owns a 25% or more limited partnership interest.
Privately-Held Corporation	any Person who owns 25% or more of the voting stock.
Limited Liability Company	all non-member managers, member-managers, and any Person who owns a 25% or more membership interest.
Trust (other than a Land Trust)	the grantor (if the trust is a revocable trust or if the grantor or settlor has retained powers), any Person who has a 25% or more beneficial interest in the trust, and any trustee.
Land Trust	any Person who owns a 25% or more beneficial interest in the land trust.

303.01 Entity Review

➔ Guidance

When you review an entity, consider the following questions:

- Is it an existing entity (e.g., a corporation, limited liability company, limited liability partnership, or other acceptable structure) that is not newly formed?
- Is it a well-capitalized, stable, on-going business that would be expected to:
 - Remain financially healthy?
 - Support the Property?
 - Meet all Guarantor requirements and obligations under the Guaranty?
 - Have assets and net worth that are significantly greater than what would be minimally acceptable for an individual Key Principal?



303.02 Fund

Guidance

When you review a fund, consider the following questions:

- What is the experience and performance history of the fund manager with similar funds?
- Can the fund raise equity from financially substantial investors?
- What is the performance of the fund?
- What is the leverage level of the fund?
- What is the net worth and liquidity of the fund?
- What is the type and quality of
 - the [Property](#) and market,
 - other existing properties and markets, and
 - any potential additional properties and markets targeted by the fund pursuant to its agreements?

Additionally, you should review the organizational documents and private placement memorandum (if applicable) for the following information:

- the fund's expiration date;
- any extension to the fund's existence and conditions to approve that extension; and
- the process for winding up the business affairs of the fund, including whether the fund is organized in a state that requires the orderly dissolution of investment funds, such as Delaware or Illinois.

Section 304

Financial Statements

Requirements

You must:

- obtain signed financial statements dated within 15 months of the [Commitment Date](#) from all parties relevant to the [Mortgage Loan](#); and
- ensure all:



- Potential Red Flags for Mortgage Fraud and Other Suspicious Activity were considered; and
- unresolved red flags were reported per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance.

If the financial statements...	Then...
Are dated less than 12 months before the Commitment Date	You do not need a signed "no-material adverse change" certification.
Are dated 12—24 months before the Commitment Date	You must include a signed certification dated within 30 days before loan application that states they have experienced no material adverse change to their financial condition.
Are dated more than 24 months old	You cannot use them.

For all financial statements, you must collect:

- A schedule of real estate owned by the party providing the financial statement, including the loan information (such as lender, DSCR, and maturity date) for all assets on the schedule.
- A listing of all other assets, including
 - notes receivable from related entities, and
 - an estimate of the market value of each asset and the basis for calculating value estimates.
- All liabilities and contingent liabilities, including
 - debts under lines or letters of credit,
 - personal guaranties,
 - unmet obligations to partnerships or other entities, and
 - other future obligations (describe the amount and timing of these).
- Any other factors that may impact the party's financial position immediately or during the term of the Mortgage Loan (including any



known threat of potential lawsuits that may arise from the parties' business operations).

Section 305

Multifamily Underwriting Certificate

Requirements

You must obtain the appropriate Multifamily Underwriting Certificate (Form 6460) from the Borrower and each Key Principal.

You must ensure that the Form 6460 is

- signed and certified as true, correct, and complete, and
- dated within 90 days before the Commitment date.

If the 90-day limit is exceeded, the Borrower and Key Principals must certify that there has been no material adverse change to the financial condition shown in the Form 6460.

You must keep a copy of the Form 6460 in your Servicing File.

Section 305

Certifications

Section 305 Multifamily Underwriting Certificate (Form 6460)
305.01

Requirements

You must obtain the appropriate Multifamily Underwriting Certificate (Form 6460) from the Borrower and each Key Principal.:

- obtain the appropriate Multifamily Underwriting Certificate (Form 6460) from
 - the Borrower,
 - any Guarantor, and
 - each Key Principal; and
- retain a copy of each Form 6460 in your Servicing File.



You must ensure that the Form 6460 is:

- ~~signed and certified as true, correct, and complete, and~~
- ~~dated within 90 days before the Commitment date.~~
- is signed and certified as
 - true,
 - correct, and
 - complete;
- includes representations by the Borrower, Guarantor, or Key Principal that, to their knowledge, all
 - financial statements and schedules
 - are dated within 15 months of the certification date,
 - were prepared by the Borrower, Guarantor, or Key Principal or their independent accounting firm,
 - are true, correct, and provide a current and accurate account of the financial condition of the
 - Property,
 - Borrower,
 - Key Principals, and
 - Guarantors; and
 - Property condition information provided to you or to the PCA Consultant is correct as of the date provided; and
- either:
 - is dated within 90 days before the Commitment date; or
 - includes a certification of no material adverse changes to the financial condition shown in the financial statements delivered per the Form 6460 from each of the
 - Borrower,
 - Key Principals, and
 - Guarantor.



If the 90-day limit is exceeded, the Borrower and Key Principals must certify that there has been no material adverse change to the financial condition shown in the Form 6460.

You must keep a copy of the Form 6460 in your Servicing File.

305.02 Brokered Transaction Certifications

Requirements

For any Brokered Transaction, you must ensure the Borrower, all Key Principals, and any Guarantors directly deliver:

- all financial statements and schedules to you, including:
 - Property rent rolls;
 - Cooperative Maintenance Fee schedules;
 - Property operating statements;
 - Borrower financial statements; and
 - other related documents; and
- all Property condition information to you or the PCA Consultant, including:
 - inspection records;
 - maintenance records;
 - pre-site visit questionnaire;
 - capital improvement plans; and
 - other relevant information.

For any Brokered Transaction, you must certify in your Transaction Approval Memo that you directly, not through a Broker or Correspondent:

- obtained and reviewed all underwriting source documents from the
 - Sponsor/ Borrower,
 - Key Principals, and
 - Guarantors;



- [underwrote the Mortgage Loan;](#)
- [engaged all third-party reports/consultants; and](#)
- [entered accurate and complete Broker or Correspondent information into](#)
 - [DUS Gateway, and](#)
 - [acquisition systems.](#)

Section 306

Fraudulent Conveyance

Requirements

You must not obtain a [Commitment](#) for any [Mortgage Loan](#) if you believe that the [Borrower](#), [Key Principals](#), [Principals](#), or [Guarantors](#) intend to delay, hinder, or defraud creditors.

Guidance

To show that you have made the [Mortgage Loan](#) in good faith, consider the following questions:

- Have you carefully reviewed the facts so that you have a clear defense to potential fraudulent conveyance or fraudulent transfer claims?
- Have you obtained a [Form 6460](#) that confirms the [Borrower's](#) good faith?

Section 307

Applicant Experience Check

Requirements

For both initial applications, [Supplemental Mortgage Loans](#), and any [Transfer/Assumption](#), you must perform an [ACheck™](#) and receive a "Continue Processing" response for

- the [Borrower](#),
- each [Key Principal](#) of the [Borrower](#),
- each [Principal](#) of the [Borrower](#),
- each [Guarantor](#), and



- any person who owns or controls an entity **Key Principal**.

Operating Procedures

Where can you find ACheck?

You can find the ACheck application at <https://multifamily.fanniemae.com/applications-technology/acheck>.

When do you use the ACheck application?

As soon as you receive an application request and the necessary tax identification numbers and/or social security numbers, enter the information into ACheck.

- If you have not yet identified all parties at this stage, you must enter all **Key Principals**, **Principals**, and **Guarantors** of the **Borrower** into ACheck as soon as you identify them.
- If more than 90 days pass between the initial ACheck and **Commitment Date**, you must repeat an ACheck.

How do you view ACheck results?

The ACheck application will provide either a “Continue Processing” or “Do Not Process” electronic response instantaneously.

■ **“Continue Processing” Response**

You must receive a “Continue Processing” response in order to proceed with the application.

This does not mean that the **Borrower**, **Key Principal**, **Principal**, **Guarantor**, or **Principal** is approved; you are still required to complete full **Mortgage Loan** credit underwriting.

■ **“Do Not Process” Response**

If you receive a response stating “do not continue processing an application for a Fannie Mae loan that involves this applicant” (or similar wording), then:

- Do not proceed with the application by omitting any **Key Principal**, **Principal**, or **Guarantor** for which a “Do Not Process” response was given.
- Use the “Do Not Process” response to indicate that you need to have direct communication with Fannie Mae.



- Follow the instructions provided by the [ACheck](#) application and contact Fannie Mae before proceeding to underwrite the [Mortgage Loan](#).
- Never use the “Do Not Process” response as the sole reason for rejecting or denying credit in any cases not involving Fannie Mae.

You will not be provided any information as to why a particular [Borrower](#), [Key Principal](#), [Principal](#), or [Guarantor](#) received a “Do Not Process” response.

What about confidentiality?

You must establish procedures to ensure that all [ACheck](#) responses obtained for [Borrowers](#), [Key Principals](#), [Principals](#), and [Guarantors](#) are kept confidential.

Section 308

Compliance

Requirements

You must:

- unless you are subject to, and complying with, the [Bank Secrecy Act](#), establish and maintain effective procedures and controls (including employee training), similar to those required by the [Bank Secrecy Act](#), to prevent, identify, and report potential:
 - mortgage fraud; and
 - other suspicious activity; and
- confirm every [Borrower](#), [Key Principal](#), [Principal](#), or [Guarantor](#) is not a [Blocked Person](#).

Operating Procedures

If you identify [Potential Red Flags for Mortgage Fraud and Other Suspicious Activity](#):

1. Do not inform the [Borrower](#), any [Borrower Affiliate](#), [Key Principal](#), [Principal](#), or [Guarantor](#).
2. Evaluate the red flags to determine if a plausible business



explanation exists.

3. Immediately report any unresolved red flags indicative of mortgage fraud or other suspicious activity to:
 - <https://fims.my.salesforce-sites.com/MortgageFraudReport> or (800) 232-6643; and
 - Lender Assessment Oversight.
4. Maintain all documentation relating to the potential mortgage fraud or other suspicious activity.
5. Promptly provide all related documentation to Fannie Mae upon request.
6. Do not provide any information to Fannie Mae that would indicate whether you have filed a [Suspicious Activity Report \(SAR\)](#) with the Financial Crimes Enforcement Network (FinCEN).

If you identify any [Borrower](#), [Key Principal](#), [Principal](#), or [Guarantor](#) as a [Blocked Person](#):

1. Report the [Blocked Person](#) to Lender Assessment Oversight within 24 hours.
2. Maintain all documentation relating to your searches.
3. Promptly provide all related documentation to Fannie Mae upon request.
4. Do not
 - Deliver the Mortgage Loan, or
 - proceed with the Mortgage Loan by omitting any [Key Principal](#), [Principal](#), or [Guarantor](#) that is a [Blocked Person](#).

Section 309

Execution of Non-Recourse Guaranty

Requirements

You must obtain a [Non-Recourse Guaranty](#) from a [Key Principal](#) (the [Guarantor](#)) for any [Mortgage Loan](#) that has

- an [Underwritten DSCR](#) less than
 - 1.35 for fixed rate or



- 1.10 for variable rate, or
- an LTV greater than 65%.

You do not need to obtain a [Non-Recourse Guaranty](#) if the [Borrower](#) is a [Cooperative Organization](#) or if the [Key Principal](#) (who would otherwise be the [Guarantor](#)) is a publicly traded entity.

Section 310 Conflict Mortgage Loans

310.01 Description

Requirements

Conflict Mortgage Loan Type	
Conflict Mortgage Loan	<ul style="list-style-type: none"> • Any Mortgage Loan in which: <ul style="list-style-type: none"> - you, or any of your Lender Affiliates or Lender Senior Executives <ul style="list-style-type: none"> ▪ owns (or will own) any direct or indirect equity interest in the Borrower, or ▪ directly or indirectly controls the Borrower; or - any of your employees, or a group of your employees, owns (or will own) more than a 5% direct or indirect equity interest in the Borrower. • Any Mortgage Loan with DLA Mezzanine Financing. <p>Any equity interest you acquire in the Borrower relating solely to obtaining the associated LIHTCs is not considered when determining if the Mortgage Loan is a Conflict Mortgage Loan (see Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 709: LIHTC Properties – Lender Equity Interest).</p>



Conflict Mortgage Loan Type	
Prohibited Conflict Mortgage Loan	<p>Any Mortgage Loan in which:</p> <ul style="list-style-type: none">• you or any single Lender Senior Executive of yours owns more than a 5% direct or indirect equity interest in the Borrower;• any group of your Lender Senior Executives together owns more than a 10% direct or indirect equity interest in the Borrower; or• you or any of your Lender Affiliates is the Property manager.



Conflict Mortgage Loan Type	
Controlling Conflict Mortgage Loan	<p>Any Conflict Mortgage Loan where:</p> <ul style="list-style-type: none">• you<ul style="list-style-type: none">- can (other than through the exercise of a lender's rights and remedies under the Loan Documents) require changes to the management, operations, or decision-making of the Borrower, the Key Principal, any Person holding a Controlling Interest in the Borrower or Key Principal, or any Principal or Guarantor, or- own any Preferred Equity in the Borrower;• any of your Lender Affiliates or any employees or any group of employees of yours or any of your Lender Affiliates<ul style="list-style-type: none">- can require changes to the management, operations, or decision-making of the Borrower, the Key Principal, any Person holding a Controlling Interest in the Borrower or Key Principal, or any Principal or Guarantor,- individually or together own a 25% direct or indirect equity interest in the Borrower or in any Person holding a Controlling Interest in the Borrower at or after loan origination (including any interest acquired as part of a Transfer/Assumption),- own any Preferred Equity in the Borrower, or- exercises rights under DLA Mezzanine Financing that results in a Controlling Conflict Mortgage Loan under these requirements; or• any of your Lender Senior Executives owns any direct or indirect equity interest in the Borrower.

You must not



- Deliver a Prohibited Conflict Mortgage Loan, or
- cause any Portfolio Mortgage Loan to become a Prohibited Conflict Mortgage Loan.

310.02 Restrictions

310.02A Underwriting

Requirements

You must ensure that no Lender employee or other person involved in Conflict Mortgage Loan underwriting and approval owns any direct or indirect equity interest in the Borrower.

You must include the following in your Transaction Approval Memo:

- the amount of any direct or indirect equity interest in the Borrower owned by any Lender Senior Executive, other Lender employee or group of employees; and
- answers to the following questions, including an explanation if your answer to a question is yes:
 - Does any Lender Senior Executive, other Lender employee or group of employees, or any person who participated in the underwriting or approval of the Mortgage Loan, own any direct or indirect equity interest in the Borrower?
 - Can any Lender Senior Executive, other Lender employee or group of employees, or any person who participated in the underwriting or approval of the Mortgage Loan, require changes to the management, operations, or decision-making of the Borrower?

In addition, your underwriting submission must include:

- copies of the Borrower's organizational documents and financial statements;
- copies of all organizational documents and financial statements for any Lender Affiliate that holds a direct or indirect equity ownership interest in the Borrower; and
- an organizational chart or diagram showing
 - the complete ownership structure of the Borrower,
 - the relationship among the Lender, Borrower, and applicable



Lender Affiliate, and

- the percentage ownership of each entity.

Operating Procedures

You must designate the [Mortgage Loan](#) as a Conflict Mortgage Loan in C&D.

310.02B Servicing

Requirements

As [Servicer](#) of a Controlling Conflict Mortgage Loan, you must not

- participate in loss mitigation or special asset management decisions if it becomes a [Non-Performing Mortgage Loan](#), or
- be notified of, or participate in, any negotiations or communications between Fannie Mae and the [Borrower](#), [Key Principal](#), or [Principal](#) (or any [Affiliate](#) of any of them).

Fannie Mae will make reasonable efforts to provide copies of written communications between Fannie Mae and other parties.

These servicing restrictions apply as long as the [Mortgage Loan](#) is considered a Controlling Conflict Mortgage Loan.

Operating Procedures

1. Fannie Mae has sole discretion to decide what action, if any, to take regarding any Controlling Conflict Mortgage Loan, any [Property](#) securing a Controlling Conflict Mortgage Loan, or any [Borrower](#) or [Guarantor](#).
2. If Fannie Mae decides that a Controlling Conflict Mortgage Loan has a material risk of default or other characteristics of increased risk, it can
 - designate a substitute servicer or subservicer, or
 - terminate (with or without cause) your right to service the [Mortgage Loan](#).
3. Fannie Mae will comply with the [Program Rules Part 3 Sections B and C](#) relating to Fannie Mae initiated servicing transfers. After



servicing is transferred, you will retain your loss sharing obligation.

310.02C No First Right of Refusal

Requirements

You will not have any First Right of Refusal to purchase a [Property](#) that secured a Conflict Mortgage Loan, even if the Loss Sharing Addendum to the [MSSA](#) grants you this right.

310.02D Additional Disclosure

Operating Procedures

For an [MBS](#) backed by a Conflict Mortgage Loan, you must indicate in C&D

- that additional disclosure is required, and
- whether it is the [Lender](#), a [Lender Affiliate](#), a [Lender Senior Executive](#), a [Lender](#) employee, or group of employees who has a [Controlling Interest](#) or a [non-Controlling Interest](#).

310.02E Notifications

Requirements

If, after delivering a [Mortgage Loan](#), it becomes a Conflict Mortgage Loan, you must deliver all materials described in this Section to [Multifamily Asset Management](#) within 30 days after acquiring each equity interest.



Chapter 4

Inspections and Reserves

Section 401

Site Inspection and Lease Audit

Requirements

Before the [Commitment Date](#), you must ensure:

- a physical inspection of the [Property](#) was performed by
 - you, or
 - a [Non-Employee or Outside Party](#) per the [Program Rules](#);
- the [MBA Standard Inspection Form](#) was completed; and
- your qualified employee per [Part V, Chapter 5: Surveillance, Section 502.05A: Qualifications](#):
 - performs a physical inspection of the [Property](#); and
 - completes the [MBA Standard Inspection Form](#); and
- a lease audit was conducted reconciling the inspection findings with the:
 - rent roll;¹ and
 - lease terms.

You must:

- randomly select [Property](#) units for inspection; and
- not Deliver any [Mortgage Loan](#) secured by a [Property](#) that has an overall rating of 4 or 5 per the Comprehensive Assessment tab of the [MBA Standard Inspection Form](#).

If the [Property's](#) rent roll indicates an inspected unit is occupied:

- the inspector must confirm the unit is occupied; and
- you must:
 - confirm the inspector's findings during your lease audit; and
 - complete a lease audit form or document your reconciliation of lease terms with the rent roll.



→ Guidance

When auditing the leases:

- include a:
 - minimum of 5 leases; and
 - maximum of the lesser of
 - 30 leases, or
 - 10% of the leases;
- at least 50% of the audited leases should include a combination of
 - inspected units,
 - recent renewals, and
 - newly signed leases sufficient to verify rent trends;
- if you detect material discrepancies during the initial review, increase the number of lease reviews;
- include a tenant file review; and
- review the cash ledger or receipts journal to validate rent collections.

Section 402

Brokered Transactions

Requirements

For any Brokered Transaction, you must order:

- all third-party underwriting reports; and
- a Brokered Transaction Inspection per Form 4229, unless the Property had an overall rating of 1 on your most recent inspection per Part V, Chapter 5: Surveillance, Section 502: Property Inspections, for a
 - Supplemental Mortgage Loan, or
 - Choice Refinance Loan.

Operating Procedures

To obtain a Brokered Transaction Inspection, you must:



- use a Fannie Mae-approved Brokered Transaction inspector per Form 4229;
- request an exterior inspection; and
- not discuss the Property's rating with the Brokered Transaction inspector.

Requirements

After receiving the Brokered Transaction Inspection report, you must:

- review
 - the Brokered Transaction Inspection report,
 - any required PCA Report, and
 - the MBA Standard Inspection Form;
- ensure all rating differences among these 3 reports are:
 - reconciled;
 - approved by your Chief Underwriter; and
 - documented in your Transaction Approval Memo; and
- not Deliver a Mortgage Loan if the Brokered Transaction Inspection's overall rating is 4 or 5.

You must:

- determine if any of these reports identifies
 - deferred maintenance,
 - near-term capital item replacement,
 - necessary life safety or critical repairs, or
 - major components exhibiting a declining trend;
- incorporate all associated costs into the
 - Completion/Repair Schedule, or
 - Replacement Reserve Schedule; and
- document the items in your Transaction Approval Memo.



Operating Procedures

At Delivery, upload the Brokered Transaction Inspection report to DUS DocWay.

Data Entry	
For...	You must complete the following data fields...
<u>DUS Gateway</u>	<ul style="list-style-type: none"> • <u>Broker/Correspondent Company Name</u>; and • <u>Broker/Correspondent Individual Name</u>.
<u>Acquisition Systems</u>	<ul style="list-style-type: none"> • <u>Broker/Correspondent Company</u>; and • <u>fees paid to the Broker or Correspondent</u>.

Section ~~402~~ 403 Property Condition Assessment (PCA)

402.01 When to Perform a PCA

403.01

Requirements

Before the Commitment Date, you must:

- complete a PCA for each Property unless it is a Supplemental Mortgage Loan that complies with Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402.05: Streamlined Underwriting; and
- ensure all:
 - Potential Red Flags for Mortgage Fraud and Other Suspicious Activity were considered; and
 - unresolved red flags were reported per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance.

402.02 Date of PCA Report and PCA Site Visit

403.02

Requirements

A PCA Report (Form 4099) containing an HPB Module (or any standalone HPB Report) must be dated as of the date of the site visit by the PCA Consultant, and must be less than 6 months before the



Commitment Date.

A PCA report that does not include an HPB Module may be dated up to 12 months before the Commitment Date if you:

- ensure a site visit is performed within 90 days before the Commitment Date; and
- confirm that there has been no material adverse change to the physical condition of the Property since the date of the PCA report.

402.03 Conducting the PCA

403.03

Requirements

When conducting the PCA, you must:

- comply with Form 4099, and order all applicable PCA modules;
- identify all conditions that impact resident safety, marketability, or value of the Property; and
- properly mitigate those conditions.

If you retain a PCA Consultant that does not meet the educational qualifications or professional certifications, registrations, or training required by Form 4099, you must:

- determine that the PCA Consultant is qualified based on their alternative qualifications; and
- attach your description of the PCA Consultant's qualifications to the final PCA.

You must have an annual quality control program to review

- the quality of the PCAs performed by your PCA Consultant, and
- your compliance with the requirements in this Section and the Form 4099.

Section 403-404 Completion/Repairs

403.01 Property Evaluation

404.01



☑ Requirements

You must determine whether the **Borrower** will need to fund the **Completion/Repair Escrow** by evaluating

- the physical condition of the **Property**,
- the financial condition of the **Borrower**, and
- all necessary life safety **Completion/Repairs**.

You must include the estimated expense of all **Completion/Repairs** with the cost of all other **Rehabilitation Work** to determine whether you need to follow the requirements of **Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans for a Moderate Rehabilitation Property**.

➔ Guidance

The **Completion/Repair Schedule** should include:

- **Property** needs identified as Immediate Repairs in the **PCA**, including:
 - life safety repairs;
 - critical repairs;
 - deferred maintenance; and
 - short-term replacement of capital items; and
- any capital improvements not recommended by the **PCA Consultant** that
 - the **Borrower** will make after the **Mortgage Loan Origination Date**, and
 - you want the appraiser to include in its opinion of the market value of the **Property** on an “as completed” basis.

You should ensure that the **Borrower** completes the repairs and improvements identified on the **Completion/Repair Schedule** as outlined below.

Type of item...	Complete as follows...
-----------------	------------------------



For items identified as life safety repairs in the PCA	Comply with Part II, Chapter 4: Inspections and Reserves, Section 403.03: Life Safety Issues.
For items identified as critical repairs in the PCA	Within 6 months after the Mortgage Loan Origination Date, or sooner if recommended by the PCA Consultant.
For items identified as repairs required to comply with the Americans With Disabilities Act in the PCA	Within 90 days or less per applicable laws, ordinances, or building codes.
For items identified as deferred maintenance or items of note in the PCA	Within 12 months after the Mortgage Loan Origination Date, or sooner if recommended by the PCA Consultant.
For items identified as short-term replacement of capital items in the PCA	By the specific date recommended by the PCA Consultant, but may be longer than 12 months after the Mortgage Loan Origination Date.
For capital improvements that are <ul style="list-style-type: none"> • to be made by the Borrower in addition to those included on the PCA, and • are included in the Appraisal opinion of the market value of the Property on an “as completed” basis 	Comply with Part II, Chapter 2: Valuation and Income, Section 201.02C: Appraised Value.



For items identified as a Completion/Repair by the PCA when the estimated expense requires you to comply with Part III, Chapter 3 for a Moderate Rehabilitation Property	Comply with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans.
For all other Rehabilitation Work that was not identified as a Completion/Repair by the PCA	Comply with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans.

403.02 Completion/Repairs Funding

404.02

Requirements

When full or partial funding of the Completion/Repair Escrow is required, you must complete the Completion/Repair Schedule.

Guidance

The amount funded into the Completion/Repair Escrow on the Mortgage Loan Origination Date should be at least 125% of the estimated cost of the required Completion/Repairs.

You may choose not to fund the Completion/Repair Escrow entirely if you determine the Borrower has the financial capacity to fully address all Completion/Repairs in the PCA.

Requirements

If you choose not to fund the Completion/Repair Escrow entirely, you must obtain written assurances from the Borrower in the Multifamily Loan Agreement that all necessary Completion/Repairs will be completed within a stated period of time following the Mortgage Loan Origination Date.

403.03 Life Safety Issues

404.03

Requirements

You must ensure that all life safety repairs and remediation work for code violations are included on the Completion/Repair Schedule.



All life safety repairs must be completed

- for an acquisition, within 60 days after the [Mortgage Loan Origination Date](#), or
- in all other cases, before delivering the [Mortgage Loan](#) to Fannie Mae.

Guidance

You should consider requiring an escrow deposit (for at least 125% of estimated costs) to cover these required [Completion/Repairs](#).

403.04 Verifying Completion/Repairs

404.04

Requirements

You must verify that the [Borrower](#) has made all required [Completion/Repairs](#)

- whether the [Completion/Repair Escrow](#) was funded or not, and
- during your [Property](#) inspections before the required completion date.

Section **404-405** Replacement Reserve

404.01 Determining Replacement Reserve

405.01

Requirements

You must ensure that the [Borrower](#) has sufficient reserves to cover anticipated capital replacement and major maintenance costs. The total amount in the [Replacement Reserve](#) should equal or exceed the anticipated costs (adjusted for inflation) of all necessary capital item replacements and major maintenance needs and repairs for the period from the [Mortgage Loan Origination Date](#) to whichever is sooner:

- 2 years after the [Maturity Date](#) of the [Mortgage Loan](#); or
- 12 years after the [Mortgage Loan Origination Date](#).

In order to determine the minimum amount of the [Replacement Reserve](#), you must:



- Obtain a PCA (Form 4099).
- Complete the schedule of items to be included in the Replacement Reserve Schedule
 - using the cost estimates in the PCA, and
 - taking into account any items not already included on the Completion/Repair Schedule.

404.02 Replacement Reserve Funding

405.02

Requirements

You must ensure that the costs of all items included in the Replacement Reserve Schedule have been fully funded for

- any Tier 2 Mortgage Loan, and
- any Mortgage Loan, regardless of Tier, that requires Completion/Repairs costing more than
 - 4% of the Property's Underwriting Value for refinance transactions, or
 - 6% of the Property's Underwriting Value for acquisition transactions.

If you choose to modify the Loan Documents to not fund a Replacement Reserve for a Tier 3 or Tier 4 Mortgage Loan, you must use the appropriate Replacement Reserve Schedule.

Guidance

You may choose not to fund a Replacement Reserve for any Tier 3 or Tier 4 Mortgage Loan if

- the required Completion/Repairs do not exceed the levels specified in this Section, and
- you determine that the Borrower has the financial capacity to fully address future capital expenditures as outlined in the PCA.

404.03 Alternative Replacement Reserve Funding

405.03



→ Guidance

Instead of full funding, you may choose this alternative method for funding the [Replacement Reserve](#).

☑ Requirements

If you choose this alternative funding, you must have the [Borrower](#) deposit the following amounts on the [Mortgage Loan Origination Date](#):

- Monthly deposits for at least 2 years.
- For any significant capital item replacement or major maintenance need that you deem appropriate, an amount sufficient to cover anticipated costs for the period from the [Mortgage Loan Origination Date](#) to whichever is sooner:
 - 2 years after the [Maturity Date](#) of the [Mortgage Loan](#); or
 - 12 years after the [Mortgage Loan Origination Date](#).

You must hold these amounts in the [Replacement Reserve](#) for the entire term of the [Mortgage Loan](#), and may not make them available for refund to the [Borrower](#) until the [Mortgage Loan](#) has been paid in full.

Section **405-406** Escrow Requirements for Taxes and Insurance

405.01 Escrows

406.01

☑ Requirements

You must require any [Tier 2 Mortgage Loan Borrower](#) to make monthly escrow deposits for real estate taxes and insurance premiums.

405.02 Real Estate Tax Escrow Funding

406.02

→ Guidance

You may choose not to fund monthly escrow deposits for real estate taxes for a [Tier 3](#) or [Tier 4 Mortgage Loan](#).

☑ Requirements

If you choose not to fund monthly deposits for real estate taxes then



you must ensure all taxes are paid timely.

405.03 Insurance Escrow Funding

406.03

Guidance

You may choose not to fund monthly escrow deposits for insurance premiums for a [Tier 3](#) or [Tier 4 Mortgage Loan](#).

Requirements

If you choose not to fund monthly deposits for insurance premiums, you must require the [Borrower](#) to provide annual proof of payment of all insurance premiums.



Chapter 9 Small Mortgage Loans

Section 901 Generally

901.01 Description

Requirements

A **Small Mortgage Loan** is a **Mortgage Loan** with an original loan amount of less than or equal to \$9 million.

Guidance

A **Small Mortgage Loan** may be underwritten per:

- Part I and this Chapter; or
- Part I and Part II, as for a conventional **Mortgage Loan**.

901.02 Applicability

Requirements

You may use this Chapter to underwrite conventional **Mortgage Loans** and the following products:

- **MH Communities**;
- **MAH Properties**; and
- market rate **Cooperative Properties** that are not **Limited Equity Cooperative Properties**.

Section 902 Key Principal Guaranty Obligation

Requirements

You must obtain a **Non-Recourse Guaranty (Form 6015)** from each **Key Principal**.

Section 903 Occupancy

Requirements

Small Mortgage Loans must achieve **Stabilized Residential Occupancy**



as follows:

If the Property contains...	Then it must have...
10 or more units	at least 90% physical occupancy by Qualified Occupants for the 90 days immediately before the Commitment Date .
Less than 10 units	<ul style="list-style-type: none"> • no more than 1 vacant unit as of the Commitment Date, and • an average occupancy by Qualified Occupants of at least 90% for the 12-month period immediately before the Commitment Date.

If a Small Mortgage Loan is secured by an MH Community, then Stabilized Residential Occupancy must comply with Part II, Chapter 1: Attributes and Characteristics, Section 105: Minimum Occupancy.

Section 904 Corporate Leases; Leases to One Entity

Guidance

Entity leases are permitted; but you should analyze the effect of leasing

- more than 10% of the total residential units in the [Property](#) to corporations, partnerships, trusts, and other entities, or
- more than 5% of the total residential units to any single corporation, partnership, trust, or other entity.

Entity leases of residential units for residential purposes are considered residential space.

Section 905 Property Income Analysis

905.01 Small Mortgage Loan Underwritten NCF (Underwritten NCF)

Requirements

You must calculate [Underwritten NCF](#) as follows:

- for a MAH Property, per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703: Property Income and Underwriting;



except that Replacement Reserves may be calculated per the table in this Section;

- for a MH Community, per Part III, Chapter 6: Manufactured Housing Communities, Section 606: Property Income and Underwritten NCF;
- for a Cooperative Property, per Part III, Chapter 8: Cooperative Properties, Section 804: Income Analysis; and
- for all conventional Small Mortgage Loans, you must use the following table.

REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		
1		GROSS RENTAL INCOME – the lesser of <ul style="list-style-type: none"> • actual rents in place, or • market rents for occupied units, plus market rents for vacant units based on a current rent roll (multiplied by 12).¹
2	PLUS	To the extent deducted as an operating expense, rents for other non-revenue units. For example: <ul style="list-style-type: none"> • model units deducted in the “model apartment” operating expense in the “general and administrative” category; • owner-occupied units² deducted in the “general and administrative” category; and • employee units³ deducted in the “employee” operating expense in the “payroll and benefits” category.
	EQUALS	GROSS POTENTIAL RENT (GPR)
3	MINUS	Premiums and corporate premiums.
4	MINUS	Physical vacancy – market rents for vacant units based on a current rent roll (multiplied by 12). ⁴
5	MINUS	Concessions – the aggregate amount of forgone residential rental income from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc. ⁴



REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
6	MINUS	Bad debt – the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt. ⁴
	EQUALS	NET RENTAL INCOME (NRI)
<p>1 (a) In the New York-Northern New Jersey-Long Island, NY-NJ-PA MSA, you may use actual rents in place plus projected increases for rent-regulated units that have rent increases scheduled before, or through, the first 12 months of the loan term. Any units subject to rent regulation on the Commitment Date must be treated as rent-regulated for this calculation even if converting to market rate after origination.</p> <p>(b) For Properties located in New York City that are currently subject to the J51 Tax Incentive Program, you must ensure that the Gross Rental Income is calculated per Item 1 in Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.</p> <p>2 You must deduct owner-occupied units as an expense unless</p> <ul style="list-style-type: none"> • the Mortgage Loan is Tier 3 or Tier 4, or • the Property contains 24 or more units. <p>3 You must deduct as an expense the portion of the market rent used as employee compensation.</p> <p>4 The total of Items 4, 5, and 6 must be greater than or equal to</p> <ul style="list-style-type: none"> • 3% of GPR for the New York-Northern New Jersey-Long Island, NY-NJ-PA and San Francisco-Oakland-Fremont, CA, Metropolitan Statistical Areas (MSAs), if supported by market and property operations, or • 5% of GPR for all other MSAs. 		
CALCULATION OF OTHER INCOME		



REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
7	PLUS	<p>Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must:</p> <ul style="list-style-type: none"> • be stable; • be common in the market; • exclude one-time extraordinary, non-recurring items; and • be supported by prior years. <p>You must assess the individual month's other income within the prior full-year operating statement; or at a minimum, an operating statement covering at least the trailing 6 month's (annualized).</p>
CALCULATION OF COMMERCIAL INCOME		
8	PLUS	Actual income from leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases .
9	PLUS	Actual income from STR units .
10	MINUS	10% of the actual commercial space income (total of Items 8 plus 9). ⁵
11	PLUS	Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections. ⁵
12	PLUS	Laundry and vending, and all other income per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis .
5 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.		
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
CALCULATION OF OPERATING EXPENSES		



REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
13	MINUS	<p>Line-by-line stabilized operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a</p> <ul style="list-style-type: none"> • lease-up, • rehabilitation, or • other short-term positive or negative factors. <p>Non-recurring, extraordinary operating expenses must not be included.</p> <p>You must assess:</p> <ul style="list-style-type: none"> • past operating history; • the appraiser's expense analysis; • all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and • the Borrower's budget (in the case of an acquisition). <p>You must:</p> <ul style="list-style-type: none"> • analyze historical operations at the Property; • apply an appropriate increase over the prior year's operations in determining an estimate; and • include all STR-related expenses in their respective expense line items, including <ul style="list-style-type: none"> - cleaning, - furnishing, and - repairs. <p>You cannot include any operating expense that reflects blanket or bulk discounts that benefit the Borrower or Key Principal (e.g., blanket property or casualty insurance policies, or utilities purchased in bulk). Operating expenses must reflect the Property expenses on a stand-alone basis.</p>



REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
14	MINUS	Property management fee equal to the greatest of: <ul style="list-style-type: none"> • 3% of EGI; • actual property management fee (exclude any portion of a property management fee that is subordinated to the Mortgage Loan); or • market property management fee.
15	MINUS	Real estate taxes per Item 17(b) in Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF).
16	MINUS	Insurance equal to: <ul style="list-style-type: none"> • the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or • 110% of the current expense, for insurance policies with a remaining term less than 6 months.
17	MINUS	Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses as detailed in Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)



REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
18	MINUS	<p>Replacement Reserve expense equal to at least⁶</p> <ul style="list-style-type: none"> • \$200 per unit, for a Property with an overall rating of 1, • \$250 per unit, for a Property with an overall rating of 2, or • \$300 per unit, for a Property with an overall rating of 3. <p>The Property ratings are the ratings reported on the Comprehensive Assessment Addendum (“Comp Assmt Addendum”) tab of the MBA Standard Inspection Form.</p>
	EQUALS	UNDERWRITTEN NET CASH FLOW (UNDERWRITTEN NCF)
<p>6 If a PCA was completed, the Replacement Reserve must equal the amount required per Part II, Chapter 4: Inspections and Reserves, subject to a minimum of \$200 per unit.</p>		

905.02 Underwritten DSCR

Requirements

You must calculate Underwritten DSCR per the following table.

UNDERWRITTEN DSCR ^{1,2}		
Item	Function	Description
1		Underwritten NCF as calculated in Part III, Chapter 9: Small Mortgage Loans, Section 905.01: Small Mortgage Loan Underwritten NCF (Underwritten NCF).



UNDERWRITTEN DSCR ^{1,2}		
Item	Function	Description
2	DIVIDED BY	<p>Annual debt service for the Mortgage Loan amount.</p> <p>You must base debt service on a level debt service payment, including amortization, and the greater of</p> <ul style="list-style-type: none"> • the actual note rate, or • the required Underwriting Interest Rate Floor.³
<p>1 For a Small Mortgage Loan secured by an MAH Property underwritten per this Chapter, you must comply with the minimum DSCR requirement for an MAH Property per Form 4660.</p> <p>2 For shorter amortization terms, you must</p> <ul style="list-style-type: none"> • calculate the Underwritten DSCR based on the shorter period, and • comply with the minimum DSCR requirement per Form 4660. <p>The mandatory NRI adjustments in Part II, Chapter 2: Valuation and Income, for Properties with declining NRI do not apply.</p> <p>3 For a Small Mortgage Loan secured by an MAH Property underwritten per this Chapter, you must comply with the required Underwriting Interest Rate Floor for an MAH Property per Form 4660.</p>		

Section 906

Property Management

Requirements

To ascertain the property management requirements, you must determine how many years of experience, as of the [Commitment Date](#), the [Borrower](#) or any [Key Principal](#) has owning or managing residential rental properties, based on the following:

Similar in Size	Unit Range
Small Properties	<ul style="list-style-type: none"> • 1 multifamily property with 5 – 50 units, or • concurrently owning or managing at least 10 single-family rental units.



Similar in Size	Unit Range
Medium Properties	1 multifamily property with 51 – 100 units.
Large Properties	1 multifamily property with 101 or more units.

As of the [Commitment Date](#), a non-Local Borrower must have at least 2 years of multifamily ownership or property management experience with a property similar in size or larger than the [Property](#).

[Property](#) management requirements are as follows.

Property Size	Professional property management or qualified on-site manager required if...
Less than 10 residential units	<ul style="list-style-type: none">• non-Local Borrower, or• Local Borrower resides more than 100 miles from the Property.
10 or more residential units	<ul style="list-style-type: none">• non-Local Borrower, or• Local Borrower with less than 2 years of experience with a property similar in size or larger.

A professional property management company must have an office within 100 miles of the [Property](#) when the [Borrower](#) or all [Key Principals](#) primarily reside more than 100 miles from the [Property](#).

Guidance

A professional property management company should use a written management agreement that complies with [Part II, Chapter 1: Attributes and Characteristics, Section 112: Property Management and Agreement](#).

A qualified on-site manager

- is not required to be a [Property](#) resident,
- should generally be on-site during normal business hours, and
- for at least 2 years the before the [Commitment Date](#), should have either successfully managed the [Property](#) or have demonstrated management experience with a property similar in size or larger than the [Property](#).



Section 907 Property Condition

907.01 Site Inspection by Lender ~~or Other Third Party~~

Requirements

You must ensure:

- ~~a physical inspection of the Property is performed (including any Property securing a Small Mortgage Loan that is also a Choice Refinance Loan);~~
- your qualified employee performs a physical Property inspection (including any Choice Refinance Loan) per Part II, Chapter 4: Inspections and Reserves, Section 401: Site Inspection and Lease Audit; and
- ~~the physical inspection addresses special hazards, zoning, building and fire code violations, and regulatory compliance per the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099);~~
- ~~the person performing the inspection and completing the MBA Standard Inspection Form meets the requirements for a PCA Consultant per Part II, Chapter 4: Inspections and Reserves, Section 402.03: Conducting the PCA, and is:~~
 - ~~your employee;~~
 - ~~an appraiser; or~~
 - ~~a third-party inspector.~~

~~If a non-employee appraiser or other third-party inspector performs the physical inspection, you must also have an employee visit the Property.~~

The site inspection must provide you your qualified employee with enough information to complete the MBA Standard Inspection Form, including an:

- ~~an assessment of the current condition of the Property;~~
- assessment of the current Property condition;
- ~~an~~ identification and cost estimate of any Immediate Repairs, which must be included in the appropriate Completion/Repair Agreement; and



- a general estimate of anticipated replacement and major maintenance needs.

For any **Property** consisting of multiple buildings, the site inspection must address the condition of all roofs, HVAC equipment, exterior façades, parking lots, exterior walkways, and balconies.

If a **Mortgage Loan** has a term greater than 10 years, then you must ensure that a new site inspection is performed in the 10th year of the loan term.

The date of the site inspection must meet the timing requirements for a PCA in Part II, Chapter 4: Inspections and Reserves, Section 402: Property Condition Assessment (PCA).

You must not Deliver any **Small Mortgage Loan** secured by a **Property** that has:

- an overall rating on the **MBA Standard Inspection Form** that does not comply with Part II, Chapter 4: Inspections and Reserves, Section 401: Site Inspection and Lease Audit; or
- deferred maintenance with repair costs greater than 10% of the **UPB**.

→ Guidance

You may retain a third-party inspector to determine if a PCA

- is required, or
- should be performed.

907.02 Site Inspection by Borrower

☑ Requirements

You must ensure that the **Borrower** or the **Key Principal**:

- Conducts a physical inspection of the **Property**.
- Certifies in the Multifamily Underwriting Certificate (**Form 6460**) that the physical inspection has been performed.

907.03 PCA



Requirements

A PCA is required:

- if the site inspection
 - notes structural or physical concerns, or
 - results in an overall rating of 3 being reported on the Comp Assmt Addendum tab of the [MBA Standard Inspection Form](#); or
- when a [Replacement Reserve](#) is required per [Part III, Chapter 9: Small Mortgage Loans, Section 908: Replacement Reserve](#).

Guidance

~~When~~For a [required or optional PCA](#) is required, you may use: [the Streamlined Property Condition Assessment Guidance \(Form 4099.A\)](#), but the [PCA](#) must otherwise comply with [Part II, Chapter 4: Inspections and Reserves, Section 402: Property Condition Assessment \(PCA\)](#).

- ~~the Streamlined Property Condition Assessment Guidance (Form 4099.A), but the PCA must otherwise comply with Part II, Chapter 4: Inspections and Reserves, Section 402: Property Condition Assessment (PCA); and~~
- ~~the Streamlined PCA Requirements (Form 4099.A) instead of the MBA Standard Inspection Form, if you include the overall inspection rating as defined on the MBA Standard Inspection Form.~~

Section 908

Replacement Reserve

Requirements

You must require either full funding or alternative funding (per [Part II, Chapter 4: Inspections and Reserves, Section 404.03: Alternative Replacement Reserve Funding](#)) of the Replacement Reserve for any Tier 2 Small Mortgage Loan on a

- [Property](#) not located in an [Eligible MSA](#) per [Form 4660](#), or
- [Rent-Stabilized Property](#) located in the [New York-Newark-Jersey City, NY-NJ-PA MSA](#).

For all other [Small Mortgage Loans](#), you must determine whether to require funding of the [Replacement Reserve](#).



If you do not require full funding, then you and the [Borrower](#) must execute either

- the appropriate Modifications to Multifamily Loan and Security Agreement (Replacement Reserve – Partially or Fully Waived) ([Form 6220](#)), or
- the Modifications to Multifamily Loan and Security Agreement (Replacement Reserve – Alternative Funding) ([Form 6221](#)).

Section 909

Environmental Matters and Inspections

Requirements

Before the [Commitment Date](#), you must:

- Obtain an Environmental Screening of the [Property](#) using the ASTM E-1528 protocol.
- Perform a physical site inspection of the [Property](#).
- Notify the Appraiser of any Recognized Environmental Condition or “non-scope considerations” that would impact the value of the [Property](#).
- Determine if an [O&M](#) plan is appropriate to address a Recognized Environmental Condition.
- Determine if the state where the [Property](#) is located has an environmental super-lien statute, and ensure that the [Property](#) conditions are not likely to result in such a lien.
- Disclose any actual or suspected environmental conditions not disclosed in the [ESA](#).
- Evaluate the potential risk posed by any Recognized Environmental Conditions that could result in loss or liability to you, the [Borrower](#), the [Property](#), or Fannie Mae.
- Obtain a copy of any [Phase I ESA](#) that the [Borrower](#) has in its possession or can obtain.
- Determine, based on the findings of the environmental screening and analysis, whether a [Phase I ESA](#) is required and, if so, contract for the report.
- When indicated, contract for a [Phase II ESA](#).
- Disclose any knowledge of actual or suspected environmental problems.



→ Guidance

You may contract portions of your environmental responsibilities to qualified parties. The environmental screening and analysis may be completed by:

- the engineer conducting the [PCA](#) (if one was required);
- a qualified employee; or
- a qualified non-employee.

✦ Operating Procedures

If a qualified individual performs the environmental screening and analysis, you must:

- Identify the individual.
- Ensure that the individual certifies each environmental analysis.
- Submit a certified copy of each environmental analysis with Folder II of the Multifamily Mortgage Loan Delivery Package Table of Contents ([Form 6502.Folder.II](#)).

Section 910

Borrower, Key Principals, Guarantors, and Principals

Requirements

Except as described below, you must comply with all requirements for the [Borrower](#), [Key Principals](#), [Guarantors](#), and [Principals](#) in [Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals](#).

910.01 Borrower Organizational Structure

Requirements

Any individual [Borrower](#) must not be a [Foreign Person](#).

Although a single asset entity is preferred, the [Borrower](#) may be a multi-asset entity.

→ Guidance

If the [Borrower](#) owns multiple assets, then you should obtain and underwrite the [Borrower's](#) complete schedule of owned real estate assets. Your underwriting should include the nature, location, cash



flows, outstanding mortgage debt, and contingent liabilities of each asset.

910.02 Co-Tenant Borrowers

Requirements

If a **Co-Tenant Borrower** is not an individual or a trust holding title to assets of an individual, each **Key Principal** must execute the applicable **Guaranty per Part III, Chapter 9: Small Mortgage Loans, Section 902: Key Principal Guaranty Obligation**.

A **Co-Tenant Borrower** must be

- an individual who is not a **Foreign Person**,
- a single-asset entity, or
- a multi-asset entity.

910.03 Key Principals

Requirements

You must ensure that any individual **Key Principal** is not a **Foreign Person**.

910.04 Principals

Requirements

For **Small Mortgage Loans**, a **Principal** is any person or entity that holds direct or indirect interests of 50% or more in the **Borrower**.

910.05 Financial Statements

Requirements

You must obtain

- a schedule of owned real estate assets, and
- signed financial statements.

Instead of signed financial statements, you may obtain an equivalent signed net worth statement or personal financial statement (such as a form bank application from the **Borrower** certifying to its financial



condition) that conforms to the aging requirements in Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals.

910.06 Net Worth and Liquid Assets

Requirements

You must ensure that:

- the combined net worth of the Borrower and all Key Principals equals or exceeds the original principal amount of the Small Mortgage Loan; and
- the combined post-closing liquid assets (excluding any Small Mortgage Loan cash-out proceeds) of the Borrower and all Key Principals equal at least 9 monthly payments of P&I on the Small Mortgage Loan.

Guidance

You should:

- for net worth, consider the impact of current, long-term, and contingent liabilities compared to the Small Mortgage Loan amount;
- for liquidity, exclude the following unless you have reasonable justification:
 - retirement funds (such as IRAs and 401Ks); and
 - promissory notes payable to the Borrower or a Key Principal, whether secured or unsecured; and
- verify liquid assets for the 2-month period immediately preceding the Borrower's loan application by obtaining copies of all applicable:
 - bank statements; and
 - investment portfolio statements.

Section 911 Credit Reports

911.01 Credit Report

Requirements

Within 90 days before the Commitment Date, you must obtain credit reports



for all individual

- Borrowers,
- Key Principals,
- Guarantors, and
- Principals

from at least 2 of the following credit information services:

- Equifax;
- Experian; or
- TransUnion.

911.02 FICO Scoring

Requirements

You must ensure that all individual **Borrowers**, **Key Principals**, **Guarantors**, and **Principals** meet the Minimum FICO Requirement in Form 4660.

Guidance

To determine that the Minimum FICO Requirement is met, follow these guidelines:

If...	Then...
You obtain credit reports from 2 of the 3 credit information services for a Borrower, Key Principal, Guarantor, or Principal	Use the lower of the 2 scores.
You obtain credit reports from all 3 credit information services, for a Borrower, Key Principal, Guarantor, or Principal	Use the middle score.
A Small Mortgage Loan has multiple individual Borrowers, Key Principals, Guarantors, or Principals	Use the average of their respective FICO scores.



911.03 Reviewing the Credit Report

Requirements

You must analyze the credit report for each individual **Borrower**, **Key Principal**, **Guarantor**, and **Principal**.

If the answer to any of the following Guidance questions is “yes”, then the **Borrower**, **Key Principal**, **Guarantor**, or **Principal** must give you satisfactory explanations, even if they meet the Minimum FICO Requirement.

Guidance

As you analyze the credit report, consider the following questions:

- Have any mortgage late payments occurred in the previous 36 months?
- Have any revolving or installment late payments occurred within the previous 12 months?
- Did you consider any of the credit card or other unsecured debt balances?
- Have any tax liens been filed or reported within the previous 5 years?
- Have any discharged bankruptcies or mortgage foreclosures occurred within the previous 10 years?
- Are there any outstanding judgments or collections higher than \$5,000?



GLOSSARY

■ **Brokered Transaction**

Any Mortgage Loan sourced by you using a third party (e.g., a Mortgage Loan Broker or Correspondent) for which the third party receives a referral or other similar fee paid by you or on behalf of the Borrower. A Brokered Transaction does not include using an investment sale broker retained solely to assist in selling a Portfolio Mortgage Loan Property that is not being refinanced with Fannie Mae.

Synonyms

Brokered Transactions

■ **Mortgage Loan Broker**

Third-party Person who arranges

- Mortgage Loan financing on the Borrower's behalf, or
- Transfers/Assumptions on behalf of the
 - new Borrower for an assumption, or
 - transferee for a transfer.

Synonyms

Broker

Brokers

Mortgage Loan Brokers