



Fannie Mae®

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# Multifamily Selling and Servicing Guide

Effective as of March 20, 2023

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# Summary of Changes

## HIGHLIGHTS

**Effective for Mortgage Loans Committed as of March 20, 2023**, clarifying updates were made regarding:

- zoning and legal non-conforming status; and
- acceptable title policy forms.

### Primary Change

- Updated Part II, Chapter 3: Legal Compliance to clarify underwriting requirements when affected Improvements cannot, in the case of full or partial casualty or condemnation, be rebuilt to its pre-casualty condition per current zoning requirements and building codes.
- Removed streamlined underwriting for zoning in
  - Part III, Chapter 14: Supplemental Mortgage Loans, and
  - Part III, Chapter 18: Choice Refinance Loans.
- For all Properties, updated guidance stating the:
  - standard 2021 or 2006 ALTA forms are acceptable for Delivery; and
  - title policy's effective date should be the date you fund the Mortgage Loan.
- Revised the Loan Documentation Requirements (Form 6000) clarifying the Modifications to Multifamily Loan and Security Agreement (Legal Non-Conforming Status) (Form 6275) is required for any Property with a legal non-conforming use or characteristic.

### Questions

Please contact Zachary Gordon at (202) 752-1498, or [zachary\\_s\\_gordon@fanniemae.com](mailto:zachary_s_gordon@fanniemae.com), with any questions.



## Chapter 3

## Legal Compliance

### Section 301

### Zoning and Legally Non-Conforming Status

#### ✓ Requirements

For each **Property**, you must:

- Identify the current zoning or land use designation.
- Determine whether the use and **Property** characteristics conform to those designations.
- Confirm the zoning and land use laws and regulations permit the applicable
  - multifamily housing, or
  - manufactured housing community.

If the **Property's** use and/or characteristics are legally non-conforming under applicable zoning or land use laws and regulations and the affected **Improvements** cannot be rebuilt to the pre-casualty condition per current zoning requirements and building codes, you must:

- Analyze the impact on the **Mortgage Loan** if the **Borrower** is not allowed to rebuild the **Property** as is under current law.
- If non-conformance would result in a loss of 20% or more of the **Property's** unit count, confirm the **Improvements** can be reconstructed per current zoning requirements and building codes to a level that would support a minimum 1.00 amortizing **DSCR** in case of
  - partial casualty or condemnation, or
  - full casualty and assuming the insurance proceeds are insufficient to fully prepay the **Mortgage Loan**.
- Require the **Borrower** to execute **Modifications to Multifamily Loan and Security Agreement (Legal Non-Conforming Status) (Form 6275)**.

If you order a **Zoning Report** for the **Property** from a zoning consultant, you must:



- deliver structured data per the Zoning Report Data Supplement (Form 4089); and
- include a report narrative.

### ➔ Guidance

To assess the Borrower's ability to rebuild Improvements on a non-conforming Property to a level that would support a minimum 1.00 amortizing DSCR, you should consider:

- the continued marketability and economic viability of the Property;
- the percentage of damage that could occur before the Property would be forced to comply with current zoning and land use requirements, and how to apply that percentage to the Property's market value, assessed value, replacement cost, or unit count;
- for Properties with multiple buildings, whether the percentage of damage would need to apply to a single building or the whole complex before being forced to comply with current zoning and land use requirements; and
- the amount and type of insurance coverage maintained by the Borrower and required per Part II, Chapter 5: Property and Liability Insurance, Section 501.02C: Ordinance or Law Insurance, and the insurance loss proceeds payout, compared to increased rebuilding costs from
  - building code changes,
  - Americans with Disabilities Act compliance, and
  - the municipality's local zoning requirements (e.g., green compliance for new buildings, etc.).

## Section 301

## Zoning and Legally Non-Conforming Status

### 301.01 Zoning and Legal Non-Conforming Use

#### ☑ Requirements

For each Property, you must:

- identify the current zoning or land use designation;
- confirm the existing Property use (e.g., multifamily, single-family,



mixed use, Manufactured Housing Community, etc.) is expressly permitted per current zoning and land use laws and regulations; and

- not Deliver any Property with a legal non-conforming use.

If you order a Zoning Report from a zoning consultant, you must:

- deliver structured data per the Zoning Report Data Supplement (Form 4089); and
- include a report narrative.

## **Section** Zoning and Legally Legal Non-Conforming Status Characteristics

**301**

**301.02**

### Requirements

For each You must confirm the Property's characteristics (e.g., you must building height, density, set-back lines, etc.):

- Identify the current zoning or land use designation.
- Determine whether the use and Property characteristics conform to those designations.
- Confirm the zoning and land use laws and regulations permit the applicable
  - multifamily housing, or
  - manufactured housing community.
- conform to current zoning requirements and land use designations;  
or
- are legally non-conforming per applicable zoning or land use laws and regulations.

If the Property's use and/or characteristics are legally non-conforming under applicable zoning or land use laws and regulations and the affected Improvements cannot be rebuilt to the pre-casualty condition per current zoning requirements and building codes, you must:

- Analyze the impact on the Mortgage Loan if the Borrower is not allowed to rebuild the Property as is under current law.



- ~~If non-conformance would result in a loss of 20% or more of the Property's unit count, confirm the Improvements can be reconstructed per current zoning requirements and building codes to a level that would support a minimum 1.00 amortizing DSCR in case of~~
  - ~~partial casualty or condemnation, or~~
  - ~~full casualty and assuming the insurance proceeds are insufficient to fully prepay the Mortgage Loan.~~
- Require the Borrower to execute Modifications to Multifamily Loan and Security Agreement (Legal Non-Conforming Status) (Form 6275).
- Confirm whether the affected Improvements can be rebuilt to the pre-casualty condition per current laws, zoning requirements, and building codes without conditions or limitations, including any related solely to timing for:
  - obtaining permits or approvals; and/or
  - commencing or completing construction.
- Analyze the impact on the Mortgage Loan if the Borrower is not allowed to rebuild the Property as is per current law, without conditions or limitations.
- Comply with the following.

~~If you order a Zoning Report for the Property from a zoning consultant, you must:~~

- ~~deliver structured data per the Zoning Report Data Supplement (Form 4089); and~~
- ~~include a report narrative.~~

if..	You must..
<u>Improvements cannot be rebuilt as is per current law, without conditions or limitations.</u>	<u>Prepare an analysis determining if conformance per current zoning law would result in a loss of 20% or more of the Property's unit count.</u>



If..	You must..
<u>The analysis determines conformance per current zoning law would result in a loss of 20% or more of the Property's unit count.</u>	<u>Prepare a threshold analysis confirming the reconstructed Improvements, per current zoning requirements and building codes, would support a minimum 1.00 amortizing DSCR.</u>
<u>The reconstructed Improvements, per current zoning requirements and building codes, cannot support a minimum 1.00 amortizing DSCR.</u>	<u>Submit the Mortgage Loan for Pre-Review.</u>

### ➔ Guidance

To assess the Borrower's ability to rebuild Improvements on a non-conforming Property to a level that would support a minimum 1.00 amortizing DSCR, you should consider:

- the continued marketability and economic viability of the Property;
- the percentage of damage that could occur before the Property would be forced to comply with current zoning and land use requirements, and how to apply that percentage to the Property Property's market value, assessed value, replacement cost, or unit count;
- for Properties with multiple buildings, whether the percentage of damage would need to apply to a single building or the whole complex before being forced to comply with current zoning and land use requirements; and
- the amount and type of insurance coverage maintained by the Borrower and required per Part II, Chapter 5: Property and Liability Insurance, Section 501.02C: Ordinance or Law Insurance, and the insurance loss proceeds payout, compared to increased rebuilding costs, including from:
  - building code changes; and
  - Americans with Disabilities Act compliance; and
  - the municipality's local zoning requirements (e.g., green compliance for new buildings, etc.); and



- whether the estimated insurance proceeds from ordinance or law insurance and other coverages will be sufficient to repay the Mortgage Loan in the event of partial or full
  - casualty, or
  - condemnation.

## Section 302

### Easements

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#### Requirements

You must evaluate:

- the impact of all easements (public and private), including their effect on the **Property's** value and marketability; and
- the impact on life safety issues, environmental risks, and acceptability in the market area for certain types of easements, such as for
  - transcontinental pipelines,
  - high power electric transmission lines, or
  - drainage channels.

#### Guidance

Easements for normal utilities are generally acceptable, including those that provide natural gas, water, sewer, electricity, or telephone service to the **Property**.

Easements that serve other properties will generally be acceptable if they

- do not interfere with **Improvements** on the **Property**,
- are limited to residential and reasonable commercial use, and
- are covered by appropriate insurance.

## Section 303

### Liens and Encumbrances

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#### 303.01 Generally



### ☑ Requirements

You must ensure that the [Property](#) is free of all [Liens](#) and rights of others, except for

- [Permitted Encumbrances](#), and
- cable and laundry leases per [Part II, Chapter 1: Attributes and Characteristics, Section 108: Commercial Leases](#).

You must analyze any restrictions on [Improvements](#) or the use of the [Property](#), in order to

- determine whether the restrictions are acceptable, and
- make recommendations for addressing the restrictions.

Examples of restrictions that must be analyzed include restrictive covenants and any restrictions that have been offered, or accepted, in order to obtain a zoning approval or building permit.

If a non-MAH [Property](#) has an [Affordable Regulatory Agreement](#), it must be subordinated to the [Security Instrument Lien](#) per [Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 705: Restrictive Covenants and Affordable Regulatory Agreements](#).

### ➔ Guidance

When determining whether a restriction is acceptable, you should consider whether a restriction could negatively impact the [Property's](#)

- value,
- use,
- security,
- marketability, or
- ability to generate [NCF](#) sufficient to pay debt service.

### ☑ Requirements

You must analyze the impact of any restriction on the conversion of a [Property](#) to a condominium or similar development.

### ➔ Guidance



A restrictive covenant on condominium conversions will generally not have a negative impact if all of the following apply:

- The conversion restriction is for a period of 10 years or less.
- Any repurchase option or right of reversion in favor of a benefitted party:
  - is unconditionally subordinated to the [Lien of the Security Instrument](#) and to the [Mortgage Loan](#);
  - includes an unconditional “standstill” provision prohibiting the exercise of such option or right while the [Mortgage Loan](#) is outstanding; and
  - automatically ends if a [Foreclosure Event](#) occurs.
- The covenant provides that no mortgagee, trustee, or beneficiary under any mortgage or deed of trust will be liable for any act, omission, or indemnification obligation of the [Borrower](#) or any prior or subsequent owner of the [Property](#).
- The covenant does not require any mortgagee, trustee, or beneficiary under a mortgage or deed of trust to execute an assumption or similar agreement if a [Foreclosure Event](#) occurs.

### 303.02 Property Previously Secured Bond Financing

#### Requirements

If the Property...	You must...
Previously secured taxable or tax-exempt bonds	<ul style="list-style-type: none"> <li>• determine if the <a href="#">Property</a> is subject to any requirements, restrictions or other features that survived repayment, and</li> <li>• analyze whether the surviving features will have a material adverse impact on you, Fannie Mae, or the <a href="#">Mortgage Loan</a>.</li> </ul>
Currently secures taxable or tax-exempt bonds that are being retired with proceeds of the <a href="#">Mortgage Loan</a>	<ul style="list-style-type: none"> <li>• review the bond documents, and</li> <li>• analyze the impact of any surviving features of the financing.</li> </ul>



### → Guidance

A [Property](#) that secures, or has secured, bonds may be subject to certain requirements, restrictions, or other features that survive repayment of the bonds such as:

- rent, income, transfer, or other restrictions;
- master lease requirements that support such restrictions; and
- indemnification or other requirements that could
  - burden a future owner,
  - depress the value or marketability of the [Property](#), or
  - prevent or inhibit foreclosure of a lien securing new financing.

### ✦ Operating Procedures

For any bonds being retired with the proceeds of a [Mortgage Loan](#), you must prepare a written summary of the bond documents that:

- explains why any surviving features of the financing will not have a materially adverse effect on the [Mortgage Loan](#), the [Property](#), you, or Fannie Mae;
- gives an overview of the redemption process for retiring the bonds; and
- is uploaded into [DUS Gateway](#) prior to [Commitment](#).

## Section 304

### Title Insurance

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#### Requirements

You must ensure that every [Mortgage Loan](#) is covered by an [ALTA](#) title policy or comparable title policy approved for use in the applicable jurisdiction.

The title policy must:

- be issued by a title company that is authorized to issue title policies where the [Property](#) is located;
- be in the original amount of the [Mortgage Loan](#), including all advances held in escrow or reserves;
- be no less than the amount of the [Mortgage Loan](#) allocated to each



Property, if the Mortgage Loan is secured by multiple properties;

- insure for the benefit of Fannie Mae;
- insure the first priority Lien of the Mortgage Loan, subject only to the Permitted Encumbrances, unless it is a Supplemental Mortgage Loan;
- be in full force and effect with
  - all premiums paid,
  - no claims made by you or another lender, and
  - no claims paid;
- insure the legal description of the insured property is identical to the legal description of the property shown on any required survey;
- contain:
  - a Comprehensive Endorsement (ALTA Form 9 or equivalent);
  - an Environmental Protection Lien Endorsement (ALTA Form 8 or equivalent) that only takes exception for a statute that could give an environmental protection Lien priority over the Mortgage Loan;
  - a Mortgage Tax Endorsement (ALTA Form 38.06 or equivalent) if the Mortgage Loan is secured by an amended and restated Security Instrument, such as a New York Consolidation, Extension, and Modification Agreement (Form 6025.NY.CEMA), or a Florida Consolidated, Amended, and Restated Mortgage (Form 6025.FL.AR); and
  - appropriate Endorsements such as:
    - Zoning (where available);
    - Condominium;
    - PUD;
    - Variable Rate;
    - Leasehold Mortgage;
    - Location;
    - Unlocated Easements; and/or
    - Contiguity-Multiple Parcel;
- delete the standard survey exception;
- include a note on Schedule B, Part II listing you as the secured party



and Fannie Mae as the assignee, for any financing statement filed in the recording office;

- not list any financing statement as an exception on Schedule B, Part I; and
- insure that any taxes, assessments, or other lienable items are not yet due and payable.

### 304.01 Title Insurance Company

#### ➔ Guidance

The title company should have a satisfactory rating and adequate reserves.

### 304.02 Policy Form

#### ➔ Guidance

If the policy form meets all requirements of this Section, Fannie Mae will accept the standard ~~2006~~2021 or the ~~1992~~ ~~2006~~ ALTA forms of title insurance policies.

In those states where ALTA forms of coverage are not approved by the state insurance board or commission, you should get the closest equivalent alternative coverage.

### 304.03 Electronic Policies

#### ➔ Guidance

You may use electronically issued title policies if the coverage is enforceable against the insurer.

### 304.04 Insured

#### ➔ Guidance

The title policy should

- name you as the insured, and
- insure Fannie Mae when the Mortgage Loan is delivered (either by reference to your “successors and assigns, as their interests may appear” or by direct reference to Fannie Mae).



### 304.05 Effective Date

#### ➔ Guidance

The title policy's effective date of should be the title policy should not be earlier than when date you fund the: Mortgage Loan.

- Security Instrument is recorded, if a 1992 ALTA policy form is issued; or
- Mortgage Loan was funded, if a 2006 ALTA policy form is issued.

### 304.06 Survey Exception

#### ➔ Guidance

If the title policy includes exceptions to matters shown on a recorded map or plat, the exceptions should be specifically described.

### 304.07 Exception for Taxes, Assessments, or Other Liable Items

#### ➔ Guidance

If any taxes could become delinquent within 60 days after closing, you should require payment at closing.

### 304.08 Financing Statements

#### ➔ Guidance

Any financing statement not filed in the recording office (such as a Uniform Commercial Code filing) may be shown as an informational note on Schedule B, Part II.

### 304.09 Endorsements

#### 304.09A Generally

#### ➔ Guidance

You should get an appropriate ALTA form of endorsement that is incorporated into the “base” title policy. In jurisdictions where an ALTA form is not available, you may include in Schedule B an equivalent form of endorsement or affirmative coverage.



### 304.09B Environmental Protection Lien Endorsement

#### → Guidance

Super Lien statutes that may be included in the ALTA Form 8.1 endorsement are listed in the Acceptable Super Lien Statutes (Form 6506).

### 304.09C Comprehensive Endorsement

#### → Guidance

You should consider whether an adverse circumstance affecting the Property would be an acceptable exception on Schedule B, Part I. Examples include:

- encroachments onto the Property;
- easements or rights of way over the Property;
- encroachments by the Improvements onto adjoining land; and
- violations of existing covenants, conditions, and restrictions.

### 304.10 Document Retention

#### → Guidance

You should keep copies of any restrictions shown as exceptions in the title policy (such as easements and encumbrances) in your Servicing File.

## Section 305 Survey

### 305.01 Decision to Obtain a Survey

#### ☑ Requirements

You must decide whether to get an as-built survey and comply with:

- Part II, Chapter 3: Legal Compliance, Section 305.02: Survey, if you require a survey; or
- Part II, Chapter 3: Legal Compliance, Section 305.03: Decision Not to Obtain a Survey, if you do not require a survey.



## 305.02 Survey

### Requirements

If you require an as-built survey, it must:

- meet the requirements of an [ALTA/NSPS Land Title Survey](#) (made per the 2021 Minimum Standard Detail Requirements), including the required certification; and
- allow the title company to delete the standard survey exception from the title policy.

### Guidance

An acceptable as-built survey:

- should include these items from Table A to all the [ALTA/NSPS Minimum Standard Detail Requirements](#): 1, 2, 3, 4, 6(a) and (b), 7(a), 8, 9, 10, 13, 16, and 18;
- may omit the following from Table A:
  - item 1 for a [Property](#) with a lot and block legal description; and/or
  - item 10, if there are no party walls; and
- should be dated within 360 days before recording the [Security Instrument](#).

### Requirements

If an existing survey dated more than 360 days before the effective date of the title insurance policy is used, it must satisfy all Title Insurance Company requirements for the deletion of the standard survey exception.

### Guidance

The Title Insurance Company may require a “no new improvements” affidavit from the [Borrower](#) certifying that no changes have been made to the [Property](#) since the date of the survey. An existing survey dated within 360 days before the effective date of the title insurance policy, but not prepared in connection with the origination of the [Mortgage Loan](#), may be recertified to you, the Title Insurance Company, and Fannie Mae for the [Mortgage Loan](#).



You should consider whether an adverse circumstance found by a survey would be acceptable. Examples include:

- encroachments over boundary lines, setback lines, or easements; and
- the absence of necessary appurtenant easements, such as a storm or sanitary sewer easement.

### 305.03 Decision Not to Obtain a Survey

#### Requirements

If you do not require an as-built survey:

- either you or the appraiser must conduct a visual inspection of the [Property](#);
- any visible site condition (such as an easement, right-of-way, or encroachment) must be disclosed and insured under the title policy; and
- the title company must delete the standard survey exception from the title policy.

### 305.04 Location of Improvements

#### Requirements

Whether or not you decide to get an as-built survey, [Part II, Chapter 5: Property and Liability Insurance, Section 501.03: Catastrophic Risk Insurance](#) requires you to determine if any [Improvements](#) are located in an [SFHA Zone A or Zone V](#).

## Section 306 Security Interests in Personal Property

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### 306.01 Uniform Commercial Code (UCC) Financing Statements

#### Requirements

You must:

- Ensure that the [Security Instrument](#) creates a [Lien](#) on all [Personal Property](#).
- Ensure that the [Lien](#) is a perfected first priority [Lien](#).



- Assign each UCC security interest to Fannie Mae.

## 306.02 Creating and Perfecting the Security Interest

### → Guidance

Article 9 of the UCC covers the perfection of a security interest in Personal Property.

The following table describes how to create and perfect a security interest.

To...	Do the following...
Establish whether the Borrower or a third party owns the Personal Property	Confirm that the Borrower has provided a representation of ownership in the Underwriting Certificate (Borrower) (Form 6460.Borrower).
Verify that no other party has a Lien on the Personal Property	Conduct searches for UCC financing statements, tax Liens, and judgments on all relevant parties to the transaction.
Obtain a perfected first security interest in the Personal Property	<ul style="list-style-type: none"><li>• Obtain a security agreement from each third party that owns Personal Property.</li><li>• Verify that the Security Instrument and each third party security agreement contains a granting clause creating a security interest in all Personal Property.</li><li>• File a UCC-1 financing statement in the appropriate filing and recording office(s), with a description that matches the security interest granted in the Security Instrument.</li></ul>
Assign the security interest from you to Fannie Mae	File an appropriate assignment (e.g., UCC-1Ad; UCC-3) in the same office(s) where the UCC-1 is filed or recorded.



## 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>



Product Description	
Mortgage Loan Amount	<p>Except per Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402.03: Loan Amount, you must determine the Underwritten NCF, Underwritten DSCR, and LTV per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products in Part III.</p>
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 that escrow funding established with the Pre-Existing Mortgage Loans does not decrease or 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	<p>Must be cross-defaulted with all Pre-Existing Mortgage Loans.</p>
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>



Product Description	
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>• origination loan amount;</li><li>• amortization term; and</li><li>• Variable Underwriting 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	Variable Underwriting Rate per the applicable Part III Chapters.

### 1402.03C Calculating the DSCR and LTV

#### Requirements

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



Supplemental Mortgage Loan	
DSCR	The combined debt service of <ul style="list-style-type: none"> <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
Maximum LTV	Per Form 4660
Maturity	10 years
Market Classification	Based on Property's Location



Term	New Loan Test Requirement
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 <a href="#">DUS Gateway</a> minus any applicable "Optional Reduction"; or</li><li>• the Underwriting Interest Rate Floor per <a href="#">Form 4660</a>, 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



Zoning	<p>You must perform a non-conforming use analysis and comply with Part II, Chapter 3: Legal Compliance, Section 301: Zoning and Legally Non-Conforming Status if the Property was rezoned after the Mortgage Loan Origination Date, either</p> <ul style="list-style-type: none"><li>• causing it to become a non-conforming use;</li><li>or</li><li>• restricting the right to rebuild an existing non-conforming use.</li></ul> <p>A new zoning and non-conforming use analysis is not required if the zoning has not changed.</p>
Appraisal	<p>You must obtain a new Appraisal.</p>
Property Management	<p>If there has been or will be a Property management change, you must comply with Part II, Chapter 1: Attributes and Characteristics, Section 111.01: Property Management.</p>
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. 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 <a href="#">PCA Report</a> indicates a need to increase the existing or fund an initial <a href="#">Replacement Reserve</a>, you must ensure the funding by amending the <a href="#">Replacement Reserve Schedule</a>.</li><li>• Even if there is no funding or only partial funding for a <a href="#">Pre-Existing Mortgage Loan</a>, you must fully fund the <a href="#">Replacement Reserve</a> if the combined <a href="#">DSCR</a> and <a href="#">LTV</a> for all <a href="#">Pre-Existing Mortgage Loans</a> and the <a href="#">Supplemental Mortgage Loan</a> is <a href="#">Tier 2</a>.</li></ul>
Environmental Site Assessment (ESA)	<p>You must obtain a new or updated <a href="#">ESA</a> 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 <a href="#">ESA</a> was performed for a <a href="#">Pre-Existing Mortgage Loan</a>;</li><li>• an <a href="#">Environmental Professional</a> performs an environmental database review and identifies no<ul style="list-style-type: none"><li>- potential environmental concerns (as defined in <a href="#">ASTM E1528 - Standard Practice for Limited Environmental Due Diligence: Transaction Screen</a>), or</li><li>- adverse conditions requiring further due diligence;</li></ul></li><li>• the <a href="#">Borrower</a> executes an <a href="#">Environmental Indemnity Agreement (Form 6085)</a>;</li><li>• you confirm that any disclosed <a href="#">Prohibited Activities or Conditions</a> per the <a href="#">Loan Documents</a> are adequately addressed through an <a href="#">O&amp;M Plan</a> being implemented at the <a href="#">Property</a>; and</li><li>• the <a href="#">Borrower</a> certifies, and you confirm, that all appropriate <a href="#">O&amp;M Plans</a> are in place and being fully and properly implemented.</li></ul>



Property and Liability Insurance	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.
Title Insurance	You must ensure the Borrower obtains a new title insurance policy.

## 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

You must contact Fannie Mae per Part V, Chapter 7: Non-Performing Mortgage Loans, Section 704: Notice of Default; Reservation of Rights



if there has been:

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



## Chapter 18 Choice Refinance Loans

### Section 1801 Eligibility

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#### Requirements

A [Choice Refinance Loan](#) is a [Portfolio Mortgage Loan](#) that is eligible for a streamlined underwriting process which reduces origination costs.

To use the [Choice Refinance Loan](#) streamlined underwriting, you must ensure:

Topic	Requirements
Prerequisites	<ul style="list-style-type: none"><li>• You have been the <a href="#">Servicer</a> of the <a href="#">Portfolio Mortgage Loan</a> for the last 12 months.</li><li>• The <a href="#">Choice Refinance Loan</a> complies with <a href="#">Form 4660</a>.</li><li>• The <a href="#">Portfolio Mortgage Loan</a> is not in default.</li><li>• The <a href="#">Borrower</a> has demonstrated a commitment to its obligations under the <a href="#">Portfolio Mortgage Loan</a> by<ul style="list-style-type: none"><li>- maintaining the <a href="#">Property</a> in good physical condition,</li><li>- providing competent <a href="#">Property</a> management services, and</li><li>- complying with the requirements under the <a href="#">Loan Documents</a>.</li></ul></li><li>• The <a href="#">Property</a><ul style="list-style-type: none"><li>- is operating on a stabilized basis,</li><li>- has a most recent overall inspection rating of 1 or 2, and</li><li>- does not show any adverse change in <a href="#">Property</a> condition, except normal wear and tear, or any life safety issues during the underwriting inspection.</li></ul></li></ul>



Topic	Requirements
Loan History	<ul style="list-style-type: none"><li>• The <a href="#">Portfolio Mortgage Loan</a>:<ul style="list-style-type: none"><li>- has a good payment history, with no delinquencies of 60 days or more during the 3 years immediately preceding the proposed refinance;</li><li>- is not on the current Fannie Mae <a href="#">Watchlist</a>;</li><li>- had no declared non-monetary defaults that remained uncured for more than 120 days;</li><li>- was underwritten and delivered per then-applicable <a href="#">Guide</a> provisions; and</li><li>- is serviced per the <a href="#">Guide</a>.</li></ul></li><li>• There were no unauthorized assumptions or changes in ownership, and no unauthorized <a href="#">Liens</a> filed against the <a href="#">Property</a>.</li></ul>
Additional Collateral	The <a href="#">Portfolio Mortgage Loan</a> does not have a <a href="#">Letter of Credit</a> or additional cash collateral.
Pricing	The pricing that was approved for the <a href="#">Portfolio Mortgage Loan</a> does not apply to the <a href="#">Choice Refinance Loan</a> .
Underwriting	The <a href="#">Choice Refinance Loan</a> , regardless of the <a href="#">Underwritten DSCR</a> , must be of sufficient credit quality to repay the refinanced <a href="#">Mortgage Loan</a> without individually negotiated debt relief.

## Section 1802 Lender Delegation

### Requirements

You are delegated to underwrite the [Choice Refinance Loan](#) if:

- the [Portfolio Mortgage Loan](#) and the [Choice Refinance Loan](#) fall under the same [Pre-Review](#) categories in the [Form 4660](#), and Fannie Mae approved those same [Pre-Review](#) categories for the [Portfolio Mortgage Loan](#); or
- the [Choice Refinance Loan](#) falls under the [Pre-Review](#) categories in the [Form 4660](#), and has the same structure as the [Portfolio Mortgage Loan](#), even though the [Portfolio Mortgage Loan](#) was not a Pre-



Review Mortgage Loan when it was Committed.

In addition, you are delegated to approve a Non-Contiguous Parcel structure if the same structure was approved for the Portfolio Mortgage Loan.

## Section 1803 Prepayment Premiums

### Requirements

You must not waive any:

- Prepayment Premium based on required yield maintenance; or
- portion of the Minimum 1% Prepayment Premium above the required yield maintenance if the Portfolio Mortgage Loan
  - has a minimum Prepayment Premium other than 1%,
  - will be refinanced before the Yield Maintenance Period End Date, or
  - is a fixed rate MBS Mortgage Loan with an Issue Date before April 1, 1999.

### Guidance

For all other Choice Refinance Loans:

Cash or MBS	You may waive the Minimum 1% Prepayment Premium...
Fixed Rate	<ul style="list-style-type: none"> <li>• after the Yield Maintenance Period End Date, or</li> <li>• for declining Prepayment Premiums during the 6 months before the Maturity Date.</li> </ul>
ARM and SARM	after any lockout if the Portfolio Mortgage Loan <ul style="list-style-type: none"> <li>• is being refinanced with a fixed rate 7- or 10-year term, and</li> <li>• was either               <ul style="list-style-type: none"> <li>- an ARM Loan with a Plan Number of 02160, 02254, 02255, 03471, or</li> <li>- a SARM Loan with a Plan Number of 03488.</li> </ul> </li> </ul>



## Section 1804 Streamlined Underwriting

### 1804.01 Zoning

#### Requirements

You must perform a non-conforming use analysis and comply with the requirements of Part II, Chapter 3: Legal Compliance, Section 301: Zoning and Legally Non-Conforming Status if the Property has been rezoned since the Mortgage Loan Origination Date of the Portfolio Mortgage Loan

- causing the Property to become a non-conforming use, or
- further restricting the ability of an existing non-conforming use to be rebuilt.

### 1804.02 Property Condition Assessment (PCA)

#### 1804.01

#### Guidance

You may use the Streamlined Physical Condition Assessment Requirements (Form 4099.A).

### 1804.03 Environmental Site Assessment

#### 1804.02

#### Requirements

A Phase I Environmental Site Assessment is not required if:

- an Environmental Professional performs an environmental database review and identifies no
  - potential environmental concerns (as defined in ASTM E1528 - Standard Practice for Limited Environmental Due Diligence: Transaction Screen), or
  - adverse conditions requiring further due diligence;
- the Borrower enters into an Environmental Indemnity Agreement (Form 6085); and
- you confirm that the Borrower is appropriately implementing any existing O&M Plans for the Property.



#### **1804.04** Survey

##### **1804.03**

#### Requirements

Part II, Chapter 3: Legal Compliance, Section 305: Survey does not apply if the:

- new mortgagee title insurance policy includes all title exceptions, including those that would appear based upon the most recent survey provided by the Borrower (whether it is the original survey for the Portfolio Mortgage Loan or a subsequent one);
- Borrower certifies that there have been no changes or improvements to the Property since the later of the date of the survey
  - referenced in the original title policy, or
  - most recently completed; and
- Property inspection report reveals no evidence of new construction or encroachments on the site from construction on adjoining properties.

#### **1804.05** Borrower Structure and Experience

##### **1804.04**

#### Requirements

You must:

- Obtain a new Multifamily Underwriting Certificate (Form 6460 series) from the Borrower, any Guarantor, and any Key Principal.
- Obtain updated copies of the organizational documents of the Borrower and the Key Principal, and confirm that the Borrower's organizational structure complies with Part II, Chapter 3: Legal Compliance.
- Confirm that no unauthorized change has been made to the Borrower's organizational structure or documents.
- Obtain a new good standing certificate from the jurisdiction where the Borrower is organized.

#### **1804.06** Borrower Credit

##### **1804.05**



### Requirements

You must obtain and review new financial statements for all parties relevant to the transaction.

For [Small Mortgage Loans](#), you must:

- confirm that the FICO scores of any such individuals comply with [Part III, Chapter 9: Small Mortgage Loans, Section 911.02: FICO Scoring](#); and
- ensure that the net worth and liquidity complies with [Part III, Chapter 9: Small Mortgage Loans, Section 910.06: Net Worth and Liquid Assets](#).

### Guidance

If the [Borrower](#) or any [Key Principal](#), [Guarantor](#), or [Principal](#) submitted financial statements within the past 12 months, then in lieu of new financial statements, you may accept a certification that there has been no material adverse change from the financial condition or credit standing reflected in the financial statements.

## **1804.07** Property Management

### **1804.06**

### Guidance

You may elect not to review the [Property](#) management or agreement per [Part II, Chapter 1: Attributes and Characteristics, Section 111: Property Management and Agreement](#).

## **1804.08** Replacement Reserve

### **1804.07**

### Requirements

You must ensure the [Replacement Reserve](#) is funded as follows:

If...	Then...
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<p>The Property</p> <ul style="list-style-type: none"><li>• is located in a Pre-Review Market that is not eligible for delegation at any Tier per Section II of the <a href="#">Form 4660</a>, and</li><li>• the market was a Pre-Review Market when the Portfolio Mortgage Loan was originated.</li></ul>	<p>The Borrower must fully fund the <a href="#">Replacement Reserve</a>.</p>
<p>The Property</p> <ul style="list-style-type: none"><li>• is located in a Pre-Review Market that is not eligible for delegation at any Tier per Section II of the <a href="#">Form 4660</a>, but</li><li>• the market was not a Pre-Review Market when the Portfolio Mortgage Loan was originated.</li></ul>	<p>You must determine the <a href="#">Replacement Reserve</a> funding per Part II, Chapter 4: <a href="#">Inspections and Reserves</a>, <a href="#">Section 404: Replacement Reserve</a>.</p>
<p>The Property is located in</p> <ul style="list-style-type: none"><li>• a Strong Market,</li><li>• a Nationwide Market, or</li><li>• a Pre-Review Market that is eligible for Tier 3 and Tier 4 Mortgage Loans on a delegated basis per Section II of the <a href="#">Form 4660</a>.</li></ul>	<p>You must determine the <a href="#">Replacement Reserve</a> funding per Part II, Chapter 4: <a href="#">Inspections and Reserves</a>, <a href="#">Section 404: Replacement Reserve</a>.</p>

## **1804.09** Real Estate Tax and Insurance Escrows

### **1804.08**

#### Requirements

You must require [T&I](#) escrow deposits for a [Tier 2 Choice Refinance Loan](#) unless Fannie Mae waived the [T&I](#) escrow for the [Portfolio Mortgage Loan](#). If you do not require [T&I](#) escrow deposits, then you must comply with [Part II, Chapter 4: Inspections and Reserves, Section 405: Escrow Requirements for Taxes and Insurance](#).

## **Section 1805** Property Ownership Change

#### Guidance



If at the time of the refinance of the Portfolio Mortgage Loan the Property is being sold to a new owner, then you may use the streamlined underwriting per Part III, Chapter 18: Choice Refinance Loans, Section 1804.01: Zoning, Part III, Chapter 18: Choice Refinance Loans, Section 1804.02: Property Condition Assessment (PCA), and Part III, Chapter 18: Choice Refinance Loans, Section 1804.03: Environmental Site Assessment provided that you comply with Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals for underwriting the Borrower, Key Principals, Guarantors, and Principals.

You may also use the streamlined underwriting per Part III, Chapter 18: Choice Refinance Loans, Section 1801: Eligibility for Portfolio Mortgage Loans that were assumed before being refinanced as a Choice Refinance Loan.