



Fannie Mae®

Multifamily Selling and Servicing Guide

Effective as of April 14, 2025

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TABLE OF CONTENTS

Summary of Changes	5
Part I Chapter 1 Overview	8
Section 101 Using the Guide	8
101.01 Organization	8
101.02 References	8
Section 102 Delegation and Underwriting	9
Section 103 Transaction Approval Memo	9
Section 104 Representations	10
Part I Chapter 3 Borrower, Guarantor, Key Principals, and Principals	16
Section 301 Generally	16
Section 302 Borrower Organizational Structure	18
302.01 Single-Asset Entity	18
302.02 Co-Tenant Borrowers	19
302.02 A Tenancy-in-Common Agreement	20
302.02 B Key Principal Execution of Guaranty	21
302.03 Joint and Several Borrowers with Multiple Properties	21
Section 303 Key Principals, Principals, and Guarantors	22
303.01 Generally	24
303.02 Entity Review	27
303.03 Fund Review	28
Section 304 Limited Experience Owner	29
Section 305 Financial Statements	31
Section 306 Schedule of Real Estate Owned (SREO)	32
Section 307 Certifications	33
307.01 Multifamily Underwriting Certificate (Form 6460)	33
307.02 Brokered Transaction Certifications	34
Section 308 Fraudulent Conveyance	35
Section 309 Applicant Experience Check	36
Section 310 Compliance	39
Section 311 Execution of Non-Recourse Guaranty	41
Section 312 Conflict Mortgage Loans	41
312.01 Description	41
312.02 Restrictions	44
312.02 A Underwriting	44
312.02 B Servicing	45
312.02 C No First Right of Refusal	46
312.02 D Additional Disclosure	46
312.02 E Notifications	46
Part II Chapter 1 Attributes and Characteristics	47
Section 101 Eligible Properties	47
Section 102 Multiple Properties	48
102.01 Single Borrower Ownership	48



102.02 Joint and Several Borrower Ownership	50
Section 103 Property Ownership; Leasehold	51
Section 104 Ground Leased Properties	51
104.01 Generally	51
104.02 Ground Lease Rents	51
104.03 Ground Lease Estoppel Certificate	52
104.04 Ground Lease Review	52
Section 105 Minimum Occupancy	52
105.01 Residential Occupancy	52
105.02 Qualified Occupants	52
Section 106 Certificates of Occupancy	53
Section 107 Phased Properties	54
Section 108 Shared Use Properties	56
108.01 Eligibility	56
108.02 Documents	58
108.02 A Loan Documents	58
108.02 B Shared Use Documents	58
Section 109 Commercial Leases	61
109.01 Material Commercial Leases	61
109.01 A Lease Review	61
109.01 B Lease Approval	62
109.01 C Lease Modifications	63
109.01 D Tenant Estoppel Certificate	63
109.01 E Subordination, Non-Disturbance and Attornment	63
109.02 Non-Material Commercial Leases	64
109.02 A Tenant Estoppel Certificate; Lease Modification	64
109.02 B Non-Material Commercial Lease Types	64
109.03 Short Term Rentals	67
Section 110 Renewable Energy Generation Systems	68
110.01 Acceptable Renewable Energy Generation Systems	68
110.02 Solar Photovoltaic Systems	69
110.03 Solar PV System Module	70
110.04 Underwritten NCF	70
Section 111 Oil/Gas Wells and Mineral Exploration	71
111.01 Active Oil and Gas Wells	71
111.02 Inactive Oil and Gas Wells	72
Section 112 Property Management and Agreement	72
112.01 Property Management	73
112.02 Property Management Agreement	73
Part II Chapter 4 Lease Audits, Inspections, and Reserves	75
Section 401 Lease Audit	75
401.01 Generally	76
401.02 Lease Audit Notification	77
401.03 Validating Rent Collections, Bad Debt, and Secondary Income	78
Section 402 Site Inspections	79



402.01 Physical Inspections	79
402.01 A Generally	79
402.01 B Selecting Units	80
402.01 C Inspection Notification	81
402.02 Capital Item Replacements	81
Section 403 Brokered Transactions	82
Section 404 Property Condition Assessment (PCA)	84
404.01 When to Perform a PCA	84
404.02 Date of PCA Report and PCA Site Visit	84
404.03 Conducting the PCA	85
Section 405 Completion/Repairs	85
405.01 Property Evaluation	85
405.02 Completion/Repairs Funding	90
405.03 Life Safety Issues	90
405.04 Verifying Completion/Repairs	91
Section 406 Replacement Reserve	91
406.01 Determining Replacement Reserve	91
406.02 Replacement Reserve Funding	92
406.03 Alternative Replacement Reserve Funding	93
Section 407 Escrow Requirements for Taxes and Insurance	93
407.01 Escrows	93
407.02 Real Estate Tax Escrow Funding	93
407.03 Insurance Escrow Funding	94
GLOSSARY	95



Summary of Changes

HIGHLIGHTS

Effective for Mortgage Loans Committed as of April 14, 2025, updated fraud prevention underwriting due diligence in:

- Part I, Chapter 1: Overview;
- Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals;
- Part II, Chapter 1: Attributes and Characteristics; and
- Part II, Chapter 4: Lease Audits, Inspections, and Reserves.

Effective for all Transfers/Assumptions as of April 14, 2025, updated the Multifamily Asset Management Delegated Transaction: Transfer/Assumption (Form 4636.TA).

Primary Changes

Updated:

- Part I, Chapter 1: Overview to:
 - require documentation of all due diligence findings in the Transaction Approval Memo; and
 - confirm Loan Documents govern if any inconsistency with the Guide exists.
- Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals to:
 - revise Section 301: Generally, requiring you to document all of your due diligence findings in the Transaction Approval Memo;
 - revise Section 302: Borrower Organizational Structure, requiring your review of
 - the Borrower's formation documents, and
 - all amendments and restatements;
 - revise Section 303: Key Principals, Principals, and Guarantors, adding requirements for reviewing Principals' direct and indirect ownership interests;
 - add Section 304: Limited Experience Owner, outlining compliance and documentation information for Limited Experience Owners;
 - add Section 306: Schedule of Real Estate Owned, requiring collection of a detailed SREO from any Key Principal and Guarantor; and
 - revise Section 309: Applicant Experience Check, providing:



- detailed timing for performing an ACheck™ on any Sponsor, Key Principal, or Guarantor that is a Limited Experienced Owner both
 - before accepting a signed application, and
 - within 3 days before Rate Lock; and
- Frequently Asked Questions related to the ACheck application and process.

- Part II, Chapter 1: Attributes and Characteristics to revise:
 - Section 101: Eligible Properties, requiring Property internet searches and documentation in the Transaction Approval Memo; and
 - Section 112: Property Management, requiring additional oversight of the Property's management team.

- Part II, Chapter 4: Lease Audits, Inspections, and Reserves to:
 - modify Section 401: Lease Audit, outlining requirements for:
 - reviews;
 - notifications; and
 - validating
 - rent collections,
 - bad debt, and
 - secondary income;

 - add Section 402: Site Inspections, outlining requirements for:
 - physical inspections;
 - notifications;
 - selecting units; and
 - capital item replacements; and

 - update Section 405: Completion/Repairs.

- The Glossary, to add new definitions and align existing terms.

- Form 4636.TA, to add a Delegation Determination Question for Potential Red Flags for Mortgage Fraud and Other Suspicious Activity.



Superseded Publication

This publication supersedes Supplement 24-05R: Revised Fraud Prevention Underwriting Due Diligence.

Questions

Please contact the Fannie Mae Deal Team with any questions.



Chapter 1

Overview

Section 101

Using the Guide

101.01 Organization

Requirements

The [Guide](#) is divided into 3 categories:

- Requirements are mandatory conditions that must be satisfied for all [Lender-delegated Mortgage Loans](#) and activities. You must obtain Fannie Mae's prior approval to [Deliver a Mortgage Loan](#) or perform an activity that does not comply with any requirement.
- Guidance are best practices to inform and support a [Lender's](#) delegated analysis and decision-making. Fannie Mae expects you to exercise your delegated authority in a prudent manner, and will review your analysis and delegated decisions.
- Operating Procedures are required steps or processes that must be followed.

The [Lender Contract](#) provides Fannie Mae with certain rights, remedies, and corrective actions if you fail to satisfy requirements, follow the operating procedures, or exercise delegated authority in a prudent manner.

If the [Guide](#) does not specify a category, then the information is a requirement.

101.02 References

Requirements

The following rules apply:

- a reference to the [Guide](#) includes any:
 - update, amendment, restatement, modification, or supplement; and
 - referenced exhibits, appendices, or other forms;
- a reference to any [Person](#) also includes the [Person's](#) successors and assigns;
- a reference to any [Loan Document](#), statute, regulation, or standard,



also includes all amendments, modifications, or restatements made from time to time; ~~and~~

- for any inconsistency between the [Guide](#) and the [Loan Documents](#) regarding a [Mortgage Loan](#) or [Portfolio Mortgage Loan](#), the [Loan Documents](#) will govern; and
- whenever you make a representation “to your knowledge” or “to the best of your knowledge,” you mean the actual state of knowledge of your officers and employees responsible for the underwriting, origination, servicing, or sale of the [Mortgage Loan](#) regarding the matters expressly set forth in the representation, in each case without having conducted any independent inquiry into such matters, and without any obligation to do so (except as expressly set forth herein). All information contained in documents which are part of or required to be part of your [Servicing File](#) is deemed to be within your knowledge.

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Section 102

Delegation and Underwriting

Requirements

You must comply with the [Guide](#) in its entirety. Your [Lender Contract](#) describes your delegated authority to underwrite and [Deliver Mortgage Loans](#).

For underwriting and [Delivery](#) to be fully delegated to you, you must underwrite the [Mortgage Loan](#) to meet the requirements provided in

- the Multifamily Underwriting Standards ([Form 4660](#)),
- Part I,
- Part II, and
- the applicable chapters of Part III based on the specific products and features of the [Mortgage Loan](#).

If the [Mortgage Loan](#) does not comply with the applicable requirements, it is a [Pre-Review Mortgage Loan](#) (see [Part I, Chapter 2: Mortgage Loan, Section 203: Pre-Review Mortgage Loans](#)).



Section 103

Transaction Approval Memo

Requirements

Your Transaction Approval Memo must:

- document your analysis of all reasonably identifiable strengths and weaknesses of the proposed Mortgage Loan transaction; and
- document
 - your analysis of all reasonably identifiable strengths and weaknesses of the proposed Mortgage Loan transaction, and
 - all due diligence findings required by the Guide; and
- address and mitigate the following:
 - Property's financial performance, trends, and value;
 - Property's current physical condition and expected condition over the term of the Mortgage Loan;
 - environmental conditions and seismic risk impacting the Property;
 - ability of the Property to be refinanced at the Maturity Date;
 - Borrower's, Key Principals', and Guarantors' financial capacity and experience;
 - Property market's performance and trends;
 - any other factors that could impact the transaction during the Mortgage Loan term or at the Maturity Date; and
 - analysis and support for your decisions on any matters covered by requirements or guidance in Parts I, II, and III.

Guidance

Fannie Mae will consider the quality and thoroughness of your analysis, and the appropriateness and quantity of adjustments made

- in the underwriting,
- during the monitoring process, and
- when exercising the remedies or corrective actions provided in the Lender Contract.



Section 104

Representations

Requirements

When you [Deliver a Mortgage Loan](#) to Fannie Mae you represent that:

- At all times during the origination and underwriting of the [Mortgage Loan](#), you were authorized to transact business in the [Property's](#) jurisdiction. If you were not authorized, then none of your activities related to the [Mortgage Loan](#) requires authorization to transact business in the [Property's](#) jurisdiction.
- If the laws of the [Property's](#) jurisdiction do not require you to be authorized to do business, then this lack of authorization will not adversely affect the mortgagee's ability to enforce the [Mortgage Loan](#).
- You are the sole owner and holder of the [Mortgage Loan](#) and have full right and authority to sell the [Mortgage Loan](#) to Fannie Mae.
- Your right to sell the [Mortgage Loan](#) to Fannie Mae is not subject to any other party's interest or [Lien](#), or to any agreement with any other party.
- You complied with all applicable federal or state laws, regulations, or other requirements regarding
 - fair lending,
 - fair housing,
 - consumer credit,
 - equal credit opportunity,
 - truth-in-lending, and
 - the prohibition of redlining and other forms of discrimination.
- Unless modified by Fannie Mae's [Pre-Review](#) approval, the [Mortgage Loan](#) meets
 - the requirements of the [Guide](#),
 - the [Form 4660](#), and
 - all applicable requirements of your [Lender Contract](#).
- No [Person](#) on the [Restricted Vendor List](#) performed any service for, or was involved in any way with, the [Mortgage Loan's](#)



- underwriting.
 - underwriting closing, or
 - Delivery.
- The **Mortgage Loan** either meets or is exempt from any usury laws or regulations.
 - The **Loan Documents** you deliver to Fannie Mae are the appropriate and correct forms for the particular transaction under the **Guide** and contain the same provisions as those provided to you by Fannie Mae (except for completion of blanks, deletion of bracketed information which is not applicable, and other changes approved by Fannie Mae).
 - The **Borrower** is not in default under any of the terms of the **Loan Documents** and would not be in default under any of the terms of the **Loan Documents** with the passage of time, the giving of notice, or both.
 - The terms and conditions of the **Mortgage Loan** (as reflected in the **Loan Documents**) have not been amended, modified, or supplemented by
 - any other agreement or understanding of the parties, or
 - waiver of any of the material provisions of those **Loan Documents**.
 - All documents that evidence, secure, or otherwise relate to the **Mortgage Loan** have been delivered to Fannie Mae. If you are not the actual party assigning the **Mortgage Loan** to Fannie Mae because of the financing structure (e.g., a variable rate bond transaction), you make this representation only to the best of your knowledge.
 - The **Mortgage Loan** has not been satisfied, cancelled, released, or subordinated, and Fannie Mae has approved in writing any material modification to the **Mortgage Loan** occurring after the **Mortgage Loan Origination Date**, including any change in the:
 - **Mortgage Loan** amount, **Gross Note Rate**, **Maturity Date**, amortization period, or timing of payments;
 - **Collateral** or **Lien** priority;
 - reserve types required per the **Loan Documents** or their release provisions;
 - **Mortgage Loan** recourse provisions, including the addition of new



non-recourse carveouts;

- Borrower's organization type; or
 - Persons personally liable for the [Mortgage Loan](#), including any [Payment Guaranty](#) or additional credit enhancement.
- The [Lien](#) on the [Collateral](#) identified in the Transaction Approval Memo is valid.
 - The [Borrower](#) has properly signed the [Loan Documents](#); they are valid and enforceable obligations of the [Borrower](#), subject to bankruptcy, reorganization, or insolvency laws, or other general principles of equity.
 - To the best of your knowledge, as of the [Delivery](#) of the [Mortgage Loan](#):
 - the [Property](#) does not have any subordinate loans that have not been pre-approved by Fannie Mae;
 - the [Property](#) has not been damaged by any [Catastrophic Event](#);
 - the [Property](#) has not been condemned or been a part of any proceeding that would impair
 - the value of the [Mortgage Loan](#),
 - the value of the [Property](#), or
 - the usefulness of the [Property](#) for the contemplated purpose; and
 - there are no proceedings – pending or contemplated – to partially or totally condemn the [Property](#).
 - To the best of your knowledge:
 - the credit reports and financial statements relating to the [Borrower\(s\)](#) (and to any other person or entity required by the [Guide](#)) correctly reflect the financial condition of these person(s) without material exception; and
 - as of the [Delivery](#) of the [Mortgage Loan](#), none of the following is the subject of an existing or contemplated bankruptcy, reorganization, insolvency, or comparable proceeding
 - any [Borrower](#),
 - any general partner of a [Borrower](#),
 - any [Key Principal](#),



- any Guarantor, or
 - any other party whose bankruptcy could negatively impact one of these parties.
- If the Mortgage Loan is insured or guaranteed by any Person, including any governmental authority
 - you have ensured that insurance or Guaranty is in effect, and
 - you have complied with all applicable provisions of the insurance or Guaranty that covers the Mortgage Loan.
 - The Property is free of all mechanics', materialmen's, or similar Liens, and there are no rights outstanding that could cause such liens. (The only exceptions are mechanics' or materialmen's Liens which attach automatically under the laws of any governmental authority when work is started or materials are delivered to the Property and the Borrower is not delinquent in the payment for this work or materials).
 - You have not made or knowingly received from others, any advance of funds (directly or indirectly) on behalf of the Borrower connected with the Mortgage Loan transaction, except for funds permitted in the Guide or related to interest paid from the earliest of the:
 - date of the Note;
 - date the Mortgage Loan proceeds were disbursed to the Borrower; or
 - date 1 month before the first installment of P&I on the Mortgage Loan is due.
 - To the best of your knowledge, based solely on the survey and the title insurance policy connected with the origination of the Mortgage Loan (except for encroachments that do not materially and adversely affect the current marketability or principal use of the Property, or that are insured against by the title insurance policy):
 - all material improvements used to determine the appraised value of the Property when the Mortgage Loan was originated are within the boundaries of the Property;
 - no material improvements on adjoining parcels encroach onto the Property; and
 - no material improvements encroach onto any easements.
 - To the best of your knowledge, nothing involving the Mortgage Loan,



the **Property**, or the **Borrower** can reasonably be expected to:

- cause private institutional investors to regard the **Mortgage Loan** as an unacceptable investment;
 - cause the **Mortgage Loan** to become delinquent; or
 - adversely affect the **Mortgage Loan's** value or marketability.
- If the **Mortgage Loan** provides that the interest rate or principal balance may be adjusted, Fannie Mae may enforce the terms of the **Mortgage Loan**, and these adjustments will not affect the priority of the **Lien**.
 - All **Mortgage Loan** proceeds were funded on the **Mortgage Loan Origination Date**
 - directly to or for the benefit of the **Borrower**, or
 - to fund reserves or escrows per the **Loan Documents**.
 - All electronic data you submit is accurate and complete.
 - If Fannie Mae's interest in the **Mortgage Loan** is a **Participation Interest**, all of the information and statements in any participation certificate that you deliver are complete, correct, and true.

Guidance

Redlining is illegal and occurs when a lender provides unequal access to credit, or offers unequal credit terms, because of the race, color, national origin, or other prohibited characteristics of the residents of the area in which the mortgaged property is located.

You may consider locational factors when appraising and underwriting if your risk analysis applies Fannie Mae's guidelines in a consistent, equitable, and legal manner.



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
- for any Sponsor, Key Principal, Guarantor, or Person who owns a Controlling Interest in the Borrower, Key Principal, or Guarantor, search the internet for
 - any negative press,
 - current or prior lawsuits, and/or
 - fair housing violations or other sanctions;
- 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; and
- document all due diligence findings in the Transaction Approval Memo.

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.

You must:

- Complete a credit review by analyzing information about the Borrower's, Key Principals', and Guarantors'
 - 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, Key Principals, and Guarantors support the transaction's
 - size,
 - complexity,
 - structure, and
 - risk.

 **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 formed for the sole purpose of owning the Property;
- if the Borrower is ultimately owned by foreign persons or entities, it has at least 1 domestic tier of ownership; and
- you review
 - the Borrower's original formation documents, and
 - all amendments or restatements.

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; and
- 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;:
 - is a single-asset entity complying with Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302.01: Single-Asset Entity;
 - is underwritten as a stand-alone Borrower;
 - complies with Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 303: Key Principals, Principals, and Guarantors; and
 - 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:

- not deliver a Mortgage Loan with
 - undisclosed Principals, or
 - a Blocked Person as a
 - Borrower,
 - Guarantor,
 - Key Principal, or
 - Principal; and
- 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • all non-member managers or member-managers; and • any Person who owns a 25% or more membership interest.



if the Borrower is a...	Then a Principal is...
Trust (other than a Land Trust)	<ul style="list-style-type: none">• 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 has <ul style="list-style-type: none">• the power of direction, and• a 25% or more beneficial ownership interest in the land trust.

303.01 Generally

Requirements

For every Mortgage Loan, you must:

- Identify and underwrite the Sponsor, any Guarantor, and all Key Principals and Principals of the Borrower.
- Require the Borrower to disclose any foreign Persons whose direct or indirect ownership interest in the Borrower, in the aggregate, is 10% or greater.
- 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 legal consideration to enter into the Guaranty.

You must:

- not deliver a Mortgage Loan with
 - undisclosed Principals, or
 - a Blocked Person as a
 - Borrower,
 - Guarantor,
 - Key Principal, or



— Principal;

- review all original, unredacted organizational documents, and any amendments, and restatements; and
- 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 (or the Person owning an interest in the Borrower) is a...	Then a Principal is...
<u>General Partnership or Joint Venture</u>	<u>any general partner or joint venturer.</u>
<u>Limited Partnership</u>	<ul style="list-style-type: none"> • <u>all general partners;</u> • <u>any Person who owns, directly or indirectly, an aggregate 25% or more limited partnership interest in the Borrower through any single limited partner; and</u> • <u>any Person who owns, directly or indirectly, an aggregate 25% or more limited partnership interest in the Borrower through multiple limited partners.</u>
<u>Privately-Held Corporation</u>	<u>any Person who owns 25% or more of the voting stock in the Borrower.</u>
<u>Limited Liability Company</u>	<ul style="list-style-type: none"> • <u>all non-member managers or member-managers;</u> • <u>any Person who owns, directly or indirectly, an aggregate 25% or more membership interest in the Borrower through any single member; and</u> • <u>any Person who owns, directly or indirectly, an aggregate 25% or more membership interest in the Borrower through multiple members.</u>
<u>Co-Tenant Borrower</u>	<u>any Person who owns, directly or indirectly, a 25% or more ownership interest in each co-tenant.</u>



If the Borrower (or the Person owning an interest in the Borrower) is a...	Then a Principal is...
Trust (other than a Land Trust)	<ul style="list-style-type: none"> 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 has <ul style="list-style-type: none"> the power of direction, and a 25% or more beneficial ownership interest in the land trust.

 **Guidance**

For example: Borrower ABC Apartments, LLC has the following ownership structure:

Equity Owner	Role	Direct Ownership % in Borrower	Member Equity Owner and % Interest	Aggregate Indirect Ownership % in Borrower
ABC Realty, LLC	Managing Member	1%	John Doe - 100%	1%
Member A, LLC	Non-managing Member	19.80%	Bob Smith - 50%	9.9%
			Others - 50%	9.9%
Member B, LLC	Non-managing Member	19.80%	Bob Smith - 50%	9.9%
			Others - 50%	9.9%
Member C, LLC	Non-managing Member	19.80%	Bob Smith - 20%	3.96%
			XYZ Owner, LP - 80%	15.84%



Equity Owner	Role	Direct Ownership % in Borrower	Member Equity Owner and % Interest	Aggregate Indirect Ownership % in Borrower
Member D, LLC	Non-managing Member	19.80%	Bob Smith - 50%	9.9%
			Sally White - 50%	9.9%
Member E, LLC	Non-managing Member	19.80%	Bob Smith - 50%	9.9%
			Others - 50%	9.9%

In addition, the ownership interest of XYZ Owner, LP is:

Equity Owner	Role	Direct Ownership % in XYZ Owner LP	Aggregate Indirect Ownership % in Borrower
987 Investor, LLC	General Partner	1%	0.16%
Sally White	Limited Partner	99%	15.68%

You must identify and underwrite:

- Bob Smith as a Principal of ABC Realty based on his aggregate 43.56% indirect ownership interest in the Borrower; and
- Sally White as a Principal of ABC Realty based on her aggregate 25.58% indirect ownership interest in the Borrower.

It is immaterial that:

- neither Bob Smith nor Sally White has any direct ownership interest in the Borrower or the managing member of the Borrower; and
- none of the non-managing members of the Borrower owns greater than the 25% direct interest in the Borrower that would qualify for being identified as a Principal.



303.01 Entity Review

303.02

➔ 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?~~
- If it is an existing entity (e.g., a corporation, limited liability company, limited liability partnership, or other acceptable structure) that is not newly formed, does it comply with the requirements for a Borrower owning more than a single asset per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302.01: Single-Asset Entity?
- Is it a well-capitalized, stable, ongoing 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 Review

303.03

➔ 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

Limited Experience Owner

Requirements

You must determine if any **Sponsor, Key Principal, or Guarantor** is a **Limited Experienced Owner.**

To determine if a **Co-Tenant Borrower** is a **Limited Experienced Owner,** you:

- must analyze the **Person** named as the co-tenant representative per **Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302.02: Co-Tenant Borrowers;** and
- may exclude from the analysis any:
 - passive **Tenant in Common Member,** who is solely named a **Key Principal** to comply with **Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302.02: Co-Tenant Borrowers;** or
 - **Borrower** whose **Controlling Interest** is owned by a **Key Principal** or **Guarantor** that does not meet the definition of a **Limited Experienced Owner.**

For each **Limited Experienced Owner:**



- verify the identity of the Sponsor and each Key Principal or Guarantor, or any Person who owns a Controlling Interest in the Borrower, using a current
 - driver's license or passport,
 - personal residence, and
 - business address (not a P.O. Box);
- ensure your Credit Underwriting or Screening team meets, in person or virtually, each individual:
 - identified as, or on behalf of, the Key Principal or Guarantor; or
 - who owns, directly or indirectly, a Controlling Interest in
 - the Borrower,
 - any Key Principal, or
 - any Guarantor;
- for any individual identified as a Key Principal or Guarantor, or who owns a Controlling Interest in the Borrower, Key Principal, or Guarantor:
 - obtain a resume; and
 - verify employment history using
 - a Lexis-Nexis report, or
 - other industry standard background reporting tool;
- review, for each Key Principal or Guarantor, or Person who owns a Controlling Interest in the Borrower, their:
 - investment profile;
 - business goals; and
 - primary sources of income, which must be consistent with business activities;
- obtain evidence of the origin of transaction funds for
 - an Acquisition, or
 - cash-in refinances requiring the Borrower to deposit additional funds at closing; and
- determine any appropriate adjustments to the reported liquidity and



net worth of the Sponsor and each Key Principal or Guarantor, including:

- verifying liquidity based on 3 consecutive months of bank or brokerage statements for accounts (a bank or brokerage letter alone is insufficient to verify liquidity); and
- using best efforts to verify the value (including ownership interest and debt outstanding) of all real estate owned, directly or indirectly, using
 - K-1 statements,
 - CoStar or similar service, or
 - mortgage loan verification from other creditors.

Guidance

You should consider if the additional underwriting requirements are appropriate for any Borrower, Sponsor, Guarantor, or Key Principal with whom you have never originated a multifamily Mortgage Loan, even if they are not a Limited Experienced Owner.

Section 304-305 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.**

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 a list of all other assets, including
 - notes receivable from related entities, and
 - an estimate of the market value of each asset and with the basis for calculating value estimates; and
- 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, with their 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).

For all Mortgage Loans, you must determine any:

- appropriate adjustments to the reported net worth and liquidity of the Sponsor and each Key Principal or Guarantor; and
- 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 306

Schedule of Real Estate Owned (SREO)

Requirements

You must:

- obtain an SREO by the Sponsor, Key Principal and Guarantor for all real estate assets, including:
 - lender;
 - address;



- whether the loan is fixed or variable rate;
- amortizing DSCR;
- Loan-to-Value Ratio;
- acquisition year;
- acquisition price;
- current market value;
- ownership percentage; and
- maturity date; and
- fully analyze:
 - the SREO, including non-multifamily properties;
 - your identification and mitigation of underperforming properties;
 - upcoming maturities; and
 - recourse debt.

Section **305-307** Certifications

305.01 Multifamily Underwriting Certificate (Form 6460)

307.01

Requirements

You must:

- 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 the Form 6460:

- is signed and certified as
 - true,



- correct, and
- complete;
- has all corresponding financial documents attached;
- 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 CommitmentCommitment Date 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.

305.02 Brokered Transaction Certifications

307.02

Requirements

For any Brokered Transaction, you must ensure the Borrower, all Key



Principals, and any Guarantors directly deliver **all**:

- **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 306-308 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 307-309 Applicant Experience Check

☑ Requirements

For both initial applications, all Supplemental Mortgage Loans Mortgage Loan, applications 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.
- perform an ACheck per the timing below for
 - the Borrower,
 - each Key Principal,
 - each Principal,
 - each Guarantor, and
 - any Person who owns a Controlling Interest in an entity
 - Key Principal, or



— Guarantor; and

- receive a "You can proceed" response.

<u>ACheck Timing</u>	
<u>For all...</u>	<u>You must perform an ACheck...</u>
<ul style="list-style-type: none"> • <u>Mortgage Loans, and</u> • <u>Transfer/Assumptions</u> 	<ul style="list-style-type: none"> • <u>upon accepting a signed application;</u> • <u>within 1 Business Day before Rate Lock;</u> • <u>within 3 Business Days before the Mortgage Loan Origination Date; and</u> • <u>within 1 Business Day before Delivery.</u>

➔ Guidance

For any extended Rate Lock (e.g., 180 days), you should consider performing an additional ACheck between Rate Lock and Delivery.

✦ 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? Operating Procedures

The ACheck application will provide either a "Continue Processing" or



“Do Not Process” electronic response is available at <https://multifamily.fanniemae.com/applications-technology/acheck>.

■ “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.



ACheck Frequently Asked Questions	
Question	Answer
<p><u>What information do you need to perform an ACheck?</u></p>	<p>The applicant's</p> <ul style="list-style-type: none"> • <u>tax identification number, or</u> • <u>Social Security number.</u>
<p><u>How do you view ACheck results?</u></p>	<p>The ACheck application will immediately respond either</p> <ul style="list-style-type: none"> • <u>"You can proceed", or</u> • <u>"Do not continue processing".</u>
<p><u>What must you do if you receive a "You can proceed" response?</u></p>	<p>For each applicant, you must:</p> <ul style="list-style-type: none"> • <u>receive a "You can proceed" response to proceed with the Mortgage Loan application;</u> • <u>complete full credit underwriting; and</u> • <u>not interpret this ACheck response to mean the applicant is approved.</u>
<p><u>What must you do if you receive a "Do not continue processing" response?</u></p>	<p>If the ACheck response is "Do not continue processing the transaction involving this applicant" (or similar wording), you must:</p> <ul style="list-style-type: none"> • <u>comply with all ACheck instructions; and</u> • <u>not proceed with the application by omitting any Borrower, Key Principal, Principal, or Guarantor who received a "Do Not Process" response.</u>
<p><u>What about confidentiality?</u></p>	<ul style="list-style-type: none"> • <u>Fannie Mae will not provide any information regarding a "Do not continue processing" response for a particular</u> <ul style="list-style-type: none"> - <u>Borrower,</u> - <u>Key Principal,</u> - <u>Principal, or</u> - <u>Guarantor.</u> • <u>You must establish procedures ensuring all ACheck responses remain confidential.</u>



Section ~~308~~ 310 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 Person that is a Blocked Person.

Section ~~309~~ 311 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.

- Borrower is a Cooperative Organization, or
- Key Principal (who would otherwise be the Guarantor) is a publicly traded entity.

Section ~~310~~ 312 Conflict Mortgage Loans



310.01 Description

312.01

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. 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).
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.



<p>Controlling Conflict Mortgage Loan</p>	<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<ul style="list-style-type: none">- 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,<ul style="list-style-type: none">- 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),<ul style="list-style-type: none">- 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.
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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

312.02

310.02A Underwriting

312.02A

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:**



- the complete ownership structure of the Borrower;
- Borrower's complete ownership structure;
- the relationship among the Lender, Borrower, and applicable Lender Affiliate₁ 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

312.02B

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

312.02C

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

312.02D

 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

312.02E

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 1

Attributes and Characteristics

Section 101

Eligible Properties

Requirements

For a [Mortgage Loan](#) to be eligible for purchase, it must be secured by a multifamily residential property that meets all of the following:

- contains at least 5 dwelling units;
- does not include a stand-alone building containing less than 5 dwelling units (e.g., a single-family structure), unless it:
 - was originally constructed as part of a single multifamily development; or
 - is situated on the same tax parcel, or shares a tax parcel boundary, with a
 - multifamily property, or
 - [MH Community](#);
- has suitable bathroom and cooking facilities within each unit;
- is located in 1 of the 50 states of the United States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, or Guam;
- is located on a publicly dedicated, all-weather road, or is accessible by a satisfactory easement from this type of road;
- consists of either a single parcel or multiple parcels per [Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership](#);
- any commercial space is:
 - physically part of, and connected to, the multifamily space; or
 - a stand-alone building that is on the same tax parcel;
- has adequate water and sewer service, which may be delivered by a public utility or, where commercially acceptable for the market area, by a private system or utility;
- offers a suitable level of utility service (e.g., electrical, natural gas, refuse removal, etc.) for the market area;
- either complies with all applicable statutes, rules, regulations, and housing and building codes, or is being appropriately remediated;



- does not contain any **Modular Housing**; and
- has access to police and emergency services.

You must search the internet to confirm, and justify in the Transaction Approval Memo, if the Property has:

- any negative press;
- current or prior lawsuits;
- fair housing violations or other sanctions; and/or
- association with bad actors.

Guidance

To determine if a single-family structure was originally constructed as part of a single multifamily development, you should consider if all buildings:

- were originally constructed at the same time;
- were historically bought, operated, and sold as 1 **Project** since originally constructed;
- are generally consistent in physical appearance, with distinct boundaries such as
 - signage,
 - gates/fencing,
 - shared parking, or
 - dedicated streets;
- are located on a single tax parcel or adjacent tax parcels;
- are configured without any non-**Borrower** owned parcels or buildings separating/splitting or within the multifamily development; and
- are not part of a predominately homeowner development.

Section 102 Multiple Properties

102.01 Single Borrower Ownership

Requirements



If more than 1 [Property](#) secures a [Mortgage Loan](#), you must determine if all multifamily buildings are part of the same [Project](#). Buildings on multiple [Properties](#) are a single [Project](#) if all [Properties](#):

- are only separated by publicly dedicated or private streets primarily intended for local residents or access to the [Property](#), and not by major arteries or thoroughfares (i.e., streets primarily intended for traffic traveling through the area); and
- have the following characteristics:
 - all buildings have been operated as a single complex (e.g., no buildings are marketed separately to tenants);
 - the [Properties](#) are within
 - 0.5 miles or less of each other, and
 - the same submarket;
 - amenities at any building are available to tenants in other buildings;
 - amenities located in one building do not materially, adversely affect the rents at other buildings without similar amenities; and
 - the overall building configuration across the [Properties](#) does not result in elevated vacancy levels at any building.

If multiple [Properties](#) are not part of the same [Project](#), you must:

- collect detailed individual data for each [Property](#), including separate
 - rent rolls, and
 - operating statements;
- enter each [Property](#) in the “[Properties](#)” section of [DUS Gateway](#);
- complete a Multifamily Affordability Estimator (MAE) for each [Property](#) per [Part I, Chapter 2: Mortgage Loan, Section 201: Registration and Multifamily Affordability Estimator](#);
- require every third-party report to assess
 - the [Properties](#) in each [Project](#) separately, and
 - all [Properties](#) in the aggregate; and
- enter each [Property](#) as a separate [Property Collateral](#) record in [C&D](#).

When a [Mortgage Loan](#) not in a [Credit Facility](#) is secured by multiple



Properties (whether in the same or multiple Projects), each multifamily Property must individually:

- comply with the minimum occupancy requirements in
 - Part II, Chapter 1: Attributes and Characteristics, Section 105: Minimum Occupancy, or
 - Part III, Chapter 9: Small Mortgage Loans, Section 903: Occupancy;
- be located in the same MSA; and
- have an acceptable Property condition based on
 - your site inspection, and
 - any required PCA.

Guidance

For a Mortgage Loan secured by multiple Properties not part of the same Project, you may:

- accept a consolidated third-party report for multiple Projects, if each Property is identified and assessed separately; and
- consolidate the Underwritten NCF and overall underwriting in a single Transaction Approval Memo.

102.02 Joint and Several Borrower Ownership

Requirements



If...	Then...
<p>A Mortgage Loan</p> <ul style="list-style-type: none">• is made to joint and several Borrowers,• is secured by multiple Properties, and• has a Property owned by a different Borrower.	<p>The Mortgage Loan and each Borrower must comply with</p> <ul style="list-style-type: none">• Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302.01: Single-Asset Entity,• Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302.03: Joint and Several Borrowers with Multiple Properties, and• Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership.

Section 103 Property Ownership; Leasehold

Requirements

You must ensure that the Property is owned in fee simple, unless the Property is held under an acceptable Leasehold estate.

Section 104 Ground Leased Properties

104.01 Generally

Requirements

If the Property has a Ground Lease, the Mortgage Loan collateral must include a Lien on the Leasehold estate.

You must ensure that the Ground Lease complies with the Ground Lease Review Checklist (Form 6479), unless

- the ground lessor joins with the Borrower in executing the Security Instrument and grants a Lien on the ground lessor's fee estate, or
- the absence of the Leasehold estate would not have a material adverse effect on the Property's operation or value.

104.02 Ground Lease Rents



Requirements

You must:

- establish an escrow for ground rents;
- ensure the [Borrower](#) deposits sufficient funds; and
- make all payments due per the [Ground Lease](#).

104.03 Ground Lease Estoppel Certificate

Requirements

You must obtain an executed Ground Lessor Estoppel Certificate ([Form 6495](#)).

104.04 Ground Lease Review

Requirements

You must:

- review and analyze the [Ground Lease](#) to ensure compliance with the requirements of this Section; and
- retain the completed [Form 6479](#) in your [Servicing File](#).

Section 105 Minimum Occupancy

105.01 Residential Occupancy

Requirements

You must ensure the [Property](#) meets these minimum occupancy levels:

- 85% physical occupancy; and
- 70% economic occupancy.

These minimum levels apply on the [Commitment Date](#) and for the preceding 3-month period.

105.02 Qualified Occupants

Requirements



When calculating physical occupancy, you must only include tenants who

- physically occupy the unit, and
- have commenced paying rent.

Guidance

You may include any tenant who:

- was under a standard lease for at least 6 months, then converted to a month-to-month lease when the lease expired; or
- is under a lease with a term of less than 6 months, if shorter-term leases
 - are commonly accepted in the market area, and
 - do not reflect weakness in the market.

You may include non-revenue producing units such as

- management units,
- employee occupied units,
- maintenance units, and
- model units.

Such units should not exceed what is usual and customary for stabilized properties in the market.

Section 106 Certificates of Occupancy

Requirements

Certificates of Occupancy	
For any...	You must...
Property with construction or rehabilitation work completed within the last 12 months	<ul style="list-style-type: none"> • Ensure all units have a certificate of occupancy. • Obtain copies of all certificates of occupancy from the Borrower. • Retain them in your Servicing File.



Certificates of Occupancy	
Other Property	<ul style="list-style-type: none"> • Determine if each unit had a certificate of occupancy at some point. • Attempt to obtain copies of them. • Retain them in your Servicing File.

 Guidance

No Certificate of Occupancy	
If you cannot obtain...	You should...
Copies of certificates of occupancy for a Property (for example, because of the Property's age, or the records of the jurisdiction where the Property is located)	<ul style="list-style-type: none"> • Exclude the income generated by any units without a certificate of occupancy, but include all expenses (including replacement reserves) for the maintenance of these units. • Look for other evidence that certificates of occupancy had been issued.
Copies or other sufficient evidence of a certificate of occupancy	<p>Analyze the risk to the Property if one had never been issued, by considering if:</p> <ul style="list-style-type: none"> • your physical inspection reveals any life safety issues; • all units are accessible through normal access routes (and not, for example, through a former janitorial closet); • the insurance excludes coverage of a casualty originating from a unit without a certificate of occupancy; and • the Property is located in a market that exhibits low vacancies and barriers to entry.

Section 107

Phased Properties

 Requirements



If the **Property** is a **Phased Property**, you must evaluate

- how the **Property** will be affected by other phases, and
- if the **Property** can succeed independently from other phases.

Guidance

In determining if a **Phased Property** is viable as a separate **Property**, you should consider if:

- its ownership and operation are separate from all other phases of the complex;
- the **Borrower** is able to provide a separate leasing office;
- your underwriting has discounted any benefits derived from staff or facilities shared with other phases;
- the records and accounts used to underwrite the **Property** are separate from those of other phases;
- any cross-easements for the complex will survive an adverse action against another phase;
- any development of a future phase could materially interfere with or disturb the **Property's**
 - occupancy,
 - marketability,
 - or living environment; and
- the **Property** is:
 - marketable to tenants or a new owner, separately from other phases;
 - visible to the public without passing through another phase of the complex; and
 - accessible from a public roadway.

In assessing the impact of future phases on a **Property**, you should consider:

- the short-term impact of construction activity; and
- long-term implications for the continued economic viability of the **Property**, taking into account the allocation of costs for shared



facilities (such as roadways).

Requirements

You may only Deliver a Mortgage Loan on a Phased Property if Fannie Mae holds all other Mortgage Loans secured by other phases of the complex.

When the Phased Property is owned or Controlled by the same Borrower or Principals as the other phases in the complex:

- all Fannie Mae Mortgage Loans on each phase must be cross-defaulted and cross-collateralized;
- when any new Phased Property Mortgage Loan is underwritten, the actual amortizing DSCR (per Form 4254.DEF) and current LTV for all existing Mortgage Loans on each phase must comply with Form 4660 for the same loan term, product, and Pricing and Underwriting Tier, where each property value is determined by
 - dividing the current NCF by the capitalization rate (i.e., a Direct Cap with Sales Comparables analysis),
 - broker's opinion of value, or
 - most recent Appraisal; and
- the new Phased Property Mortgage Loan must have a Prepayment Premium Period End Date on or before the Prepayment Premium Period End Date of the Mortgage Loans on the other phases.

Guidance

If a future phase is expected, consider issuing the first phase MBS with a potential future cross.

Section 108

Shared Use Properties

108.01 Eligibility

Requirements

This section does not apply to

- Condominium Properties, and
- Cooperative Properties.



Shared Use Property Delivery Eligibility for Essential Elements Not Located on the Property	
Topic	A Shared Use Property Mortgage Loan is eligible for Delivery if...
Documents	you determine the Shared Use Documents do not explicitly prohibit the Essential Elements from being rebuilt or repaired after any casualty or condemnation.
Property	<p>the Property benefits from Essential Elements per Shared Use Documents that:</p> <ul style="list-style-type: none"> • are perpetual; • inure to the benefit of future Property owners; • are recorded in the land records; and • if applicable, are insured as beneficial easements under the lender's title policy.
Split Ownership of Units and Essential Elements	<p>when the Borrower owns all units subject to the Shared Use Documents, and an Affiliate of the Borrower or Key Principal directly or indirectly owns the Essential Elements that benefit only the Property, such Affiliate joins the:</p> <ul style="list-style-type: none"> • Loan Documents as a joint and several Borrower; or • Security Instrument using the Modification to Security Instrument (Joinder and Consent (Affiliate Owned Common Elements)) (Form 6324).

Shared Use Property Delivery Eligibility for All Essential Elements	
Topic	A Shared Use Property Mortgage Loan is eligible for Delivery if...



Shared Use Property Delivery Eligibility for All Essential Elements	
Financial	<p>all:</p> <ul style="list-style-type: none">• Property and Essential Elements expenses and charges payable per the Shared Use Documents are current;• assessments and payments payable per the Shared Use Documents are current; and• to the extent permitted by law, future assessments owed by the Borrower and associated liens, if any, are subordinate to the Mortgage Loan.
Borrower Status	<p>the Borrower:</p> <ul style="list-style-type: none">• has no outstanding community violations; and• is not involved in a community dispute that may<ul style="list-style-type: none">- result in litigation, or- materially adversely impact the Property.

108.02 Documents

108.02A Loan Documents

Requirements

You must:

- ensure the Borrower executes the Modification to Multifamily Loan and Security Agreement Shared Use of Essential Elements (Form 6276); and
- if appropriate per the conditions described in the Estoppel Certificate attached to Form 6276, use reasonable efforts to obtain from the association or other appropriate party:
 - the Estoppel Certificate attached to Form 6276; or
 - other form providing similar representations.

108.02B Shared Use Documents



☑ Requirements

You must:

- evaluate the [Shared Use Documents](#);
- document your evaluation in the Transaction Approval Memo; and
- obtain:
 - an ALTA title policy per Part II, Chapter 3: Legal Compliance, Section 304: Title Insurance; and
 - ALTA Endorsements (i.e., 5-06, 28-06, and 9-06) if available in the Property's jurisdiction.

➔ Guidance

Shared Use Document Evaluation	
Topic	You should review the Shared Use Documents to evaluate...
Ownership and Control	<ul style="list-style-type: none">• if the Borrower owns all Improvements and the underlying land;• if Essential Elements not located on the Property exist, and if ownership is:<ul style="list-style-type: none">- directly or indirectly by an Affiliate of the Borrower or Key Principal;- by a separate association or governing body;- by another community owner or an adjacent property owner; or- shared by the community owners; and• how association and Essential Elements decisions are made by any<ul style="list-style-type: none">- developer,- declarant,- association,- community owner, or- other governing body.



Shared Use Document Evaluation	
Responsibilities and Enforcement	<p>how an association or governing body:</p> <ul style="list-style-type: none">• collects fees and assessments;• maintains Essential Elements;• obtains insurance;• mediates disputes; and• enforces covenants, including<ul style="list-style-type: none">- levying fines or interest, or- pursuing liens or foreclosure.
Fees	<p>the assessment fee structure, including</p> <ul style="list-style-type: none">• escalation provisions,• special assessments, and• if assessments should be escrowed.
Budget	<p>the association's current</p> <ul style="list-style-type: none">• annual budget,• income/expense statements, and• reserve accounts.
Mandates	<p>how the association dictates:</p> <ul style="list-style-type: none">• operations;• physical appearance;• insurance claim proceeds;• other restrictions, including limitations or modifications for using the Essential Elements; <p>and</p> <ul style="list-style-type: none">• if the cost and maintenance of the Essential Elements located on the Property are not overly burdensome.
Insurance	<p>the association's coverage for:</p> <ul style="list-style-type: none">• property, including if the Essential Elements not located on the Property must be rebuilt or repaired after any casualty or condemnation;• liability; and• director's and officer's.



Section 109

Commercial Leases

Requirements

You must only underwrite actual income from occupied commercial space with an executed lease or lease extension agreement, if:

- the remaining lease term is at least 12 months after the [Mortgage Loan Origination Date](#);
- the tenant is
 - paying rent, and
 - not delinquent on rent due outside the lease's cure period; and
- the underwritten commercial income includes the actual commercial rent due under the lease within 12 months after the [Mortgage Loan Origination Date](#), including any
 - discounts, or
 - concessions.

Guidance

Your evaluation of any commercial space's viability should include:

- [Appraisal](#) sub-market comparable commercial space rents supporting the underwritten rents;
- sub-market data confirming a low commercial space vacancy rate;
- existing sustainable demand for the tenant's business type; and
- evidence that the [Property's](#) location has sufficient foot traffic to support the tenant's business.

109.01 Material Commercial Leases

109.01A Lease Review

Requirements

You must analyze all aspects of each [Material Commercial Lease](#) and its

- tenants,



- grantees, or
- other beneficiaries.

If [Material Commercial Lease](#) approval is required per [Part II, Chapter 1: Attributes and Characteristics, Section 109.01B: Lease Approval](#) you must:

- prepare a written summary of the material terms of the [Material Commercial Lease](#); and
- keep a copy of your summary in your [Servicing File](#).

Guidance

As you analyze the [Material Commercial Lease](#), you should consider if:

- each tenant has the ability to fulfill its financial and other performance obligations under the [Material Commercial Lease](#);
- the [Material Commercial Lease](#) insurance provisions are consistent with the insurance requirements in the applicable [Loan Documents](#) or otherwise prescribed by Fannie Mae;
- each tenant is required to obtain the [Lender's](#) consent before the [Material Commercial Lease](#) is
 - assigned,
 - subleased,
 - subcontracted, or
 - otherwise transferred; and
- the tenant
 - has early termination clauses, and
 - understands the conditions under which they can terminate, including
 - a material casualty or condemnation, or
 - if the landlord cannot substantially restore the premises in a reasonable period of time following a casualty or condemnation.

109.01B Lease Approval



Requirements

Material Commercial Lease Type	
Lease with Property Assessed Clean Energy (PACE) Financing	You must not approve any Material Commercial Lease that includes PACE financing.
Renewable Energy Generation Lease	You must only approve leases for renewable energy systems that comply with Part II, Chapter 1: Attributes and Characteristics, Section 110: Renewable Energy Generation Systems .
Other Material Commercial Leases	You must only approve other Material Commercial Leases that comply with Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases .

109.01C Lease Modifications

Requirements

As you review each [Material Commercial Lease](#) modification, you must consider if it:

- violates any of the requirements of this Section;
- contains terms that are inconsistent with the [Mortgage Loan](#); or
- presents risks that are inappropriate for the [Mortgage Loan](#).

If any of these conditions are present you must:

- require the [Borrower](#) to modify the [Material Commercial Lease](#) appropriately; or
- address the items in the [Tenant Estoppel Certificate \(Form 6413\)](#) and/or the [Subordination, Non-Disturbance, and Attornment Agreement \(Form 6415\)](#).

109.01D Tenant Estoppel Certificate

Requirements

You must obtain a [Tenant Estoppel Certificate \(Form 6413\)](#) for each [Material Commercial Lease](#).



109.01E Subordination, Non-Disturbance and Attornment

Requirements

You must use [Form 6415](#) if:

- the [Material Commercial Lease](#) contains provisions for the [Borrower](#) to assume liability or other risks as landlord that would be unacceptable to the [Lender](#) in case of a [Foreclosure Event](#); or
- the form
 - is necessary for subordination and attornment, or
 - would otherwise be beneficial.

You must ensure that each [Material Commercial Lease](#) (including any renewal or extension):

- is subordinate to the [Lien](#) of the [Security Instrument](#); and
- requires the tenant to attorn to the [Lender](#) under the [Mortgage Loan](#).

109.02 Non-Material Commercial Leases

109.02A Tenant Estoppel Certificate; Lease Modification

Requirements

You must make reasonable efforts to get a [Form 6413](#) for each non-[Material Commercial Lease](#), other than leases relating only to equipment or maintenance services.

If a non-[Material Commercial Lease](#) has terms that are inconsistent with the terms of the [Mortgage Loan](#) or present inappropriate risks for the [Mortgage Loan](#), then you must:

- require the [Borrower](#) to modify the lease appropriately; or
- address any inconsistencies or risks in a [Form 6413](#).

109.02B Non-Material Commercial Lease Types

Requirements

Non-Material Commercial Lease Type



<p>Telecommunications and Cell Tower Leases</p>	<p>You must review any telecommunications and cell tower lease to ensure it does not:</p> <ul style="list-style-type: none">• comprise more than 5% of the Property's Effective Gross Income;• negatively impact the Property's<ul style="list-style-type: none">- value,- visibility,- livability, or- marketability;• impose an undue financial or operating burden on the Property or the Borrower;• obligate the Borrower to rebuild any Improvements at the Property post-casualty or condemnation;• have a lease term (including extension options) in excess of 25 years;• contain a purchase option; or• convey any right to the tenant other than simple lessee rights (e.g., a perpetual easement, a purported sale of a portion of the Improvements, unjustified exclusivity, etc.).
<p>Communications Service Agreement</p>	<p>You do not need to subordinate the service agreement to the Lien of the Security Instrument if:</p> <ul style="list-style-type: none">• the Borrower certifies to you that neither the Borrower, nor any Key Principal or Principal, is an Affiliate of the communications service provider; and• the lease does not contain provisions for the Borrower to assume liabilities and risks as landlord that would not be acceptable for you (as lender under the Mortgage Loan) in the context of a Foreclosure Event. <p>If a communications service agreement is accompanied by a lease or easement, then the lease or easement must end automatically when the service agreement expires, unless the service agreement is subordinated to the Lien of the Security Instrument.</p>



<p>Mineral Rights; Oil and Natural Gas Leases</p>	<p>You must review each agreement or lease of mineral rights or rights relating to subsurface oil and natural gas to ensure that it does not:</p> <ul style="list-style-type: none">• comprise more than 5% of the Property's Effective Gross Income;• grant surface entry for any purpose (e.g., pipes, access across, or storage on the Property);• grant subsurface rights within<ul style="list-style-type: none">- 250 feet below the surface of the Property, or- 600 feet from any Property boundary line;• have a material adverse effect on<ul style="list-style-type: none">- public health and safety,- air quality or noise levels, or- the Property's marketability or occupancy;• permit oil or gas well activities with potential negative effects on the Property's<ul style="list-style-type: none">- access,- visibility, or- storm water drainage;• have a negative effect on the Property's<ul style="list-style-type: none">- zoning, or- allowable density;• facilitate drilling, storage, or processing of oil or gas on the Property or any adjacent property; or• fail to require the lessee to indemnify and hold harmless the Borrower, as lessor, for any damage to the Property or any other damage or liability caused directly or indirectly as a result of the oil and gas exploration or drilling activities. <p>The Borrower must execute Form 6262 if a lease or deed reservation of rights allows for the subsurface exploration of oil, natural gas, or minerals, but no evidence of active or planned exploration or drilling exists on the Property.</p>
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Laundry Lease	You do not need to subordinate the lease to the Lien of the Security Instrument if you confirm that the lease: <ul style="list-style-type: none">• is not with an Affiliate of the Borrower or any Key Principal or Principal;• has market terms;• contains an acceptable termination for cause provision; and• meets recognized industry standards.
Equipment or Related Maintenance Services Lease	You must ensure that the lease: <ul style="list-style-type: none">• is subordinate to the Security Instrument;• contains an acceptable termination for cause provision; and• meets recognized industry standards.

 Guidance

Non-Material Commercial Lease Type	
Storage Unit Lease	You do not need to subordinate the lease to the Lien of the Security Instrument if you determine the unit is being leased pursuant to a residential Lease.

109.03 Short Term Rentals

 Requirements

You must ensure that:

- the residential nature of any Property with units available for STR is maintained, even though any Lease of an STR unit will be
 - classified as a commercial lease, and
 - subject to the space and income limitations per Form 4660;
- no more than 5% of the Property's units (not counting recreational vehicle sites) are available for STR; and
- the Underwritten NCF accurately incorporates all STR income.

You must include the following information in your underwriting



analysis:

- Borrower's strategy for implementing STR;
- a description of the STR arrangement;
- length of time the STR has been in place;
- Borrower's action plan for handling liability issues for
 - STR tenants at the Property, and
 - safety concerns for non-STR tenants;
- if the STR units are furnished or unfurnished; and
- confirmation that the
 - STR is legally permissible and in compliance with applicable laws and zoning,
 - Borrower's or master tenant's insurance covers any STR, and
 - Property is residential in nature (i.e., not operated as a hotel or other single room occupancy arrangement).

➔ Guidance

Examples of an STR arrangement include an arrangement between the Borrower and:

- a tenant/master tenant, where the tenant/master tenant has an agreement with an STR provider or platform (such as Airbnb, VRBO®, etc.); or
- an STR provider or platform, where the Borrower's tenants may make their units available for STR.

You should seek to establish a leasing history of at least 12 months for any STR unit.

Section 110 Renewable Energy Generation Systems

110.01 Acceptable Renewable Energy Generation Systems

☑ Requirements

Any operational renewable energy generation system benefitting the Property or the Borrower must be:



- located on the **Property**;
- comprised of a **Solar PV System**;
- **Borrower**-owned; and
- installed, or installation will begin, on or before the **Mortgage Loan Origination Date**.

110.02 Solar Photovoltaic Systems

Requirements

For any **Property** with an acceptable **Solar PV System**, you must ensure:

- All equipment, including energy storage, is located on the **Property** and owned by the **Borrower**.
- The **Borrower** has all required permits, licenses, and certificates to comply with all utility tariffs and laws governing the
 - generation,
 - storage,
 - transmission, and
 - distribution of electricity.
- The **Property** will remain connected to the utility grid even if the **Solar PV System** output is sufficient for all of the **Property's** energy needs.
- The **Borrower** will not be characterized or regulated as a public utility.
- Any power generated from the **Solar PV System** that is not consumed or stored on-site is only sold to the local utility, not to any other third party.
- Any battery storage system is designed only for on-site uses (e.g., peak shaving), and the **Borrower** has not arranged for ancillary services with any utility or third party.
- The **Borrower** executes Modifications to Multifamily Loan and Security Agreement (Mortgage Loan with installed Solar Photovoltaic System) (**Form 6270**).

Guidance

You should engage legal counsel with solar photovoltaic system



experience and state-specific knowledge to review all applicable local laws, contracts, and agreements regarding the [Solar PV System](#) installation and operation, including:

- the interconnection agreement with local distribution company or utility;
- any net metering agreements;
- engineering, procurement, and construction contracts or agreements;
- any Operating and Maintenance Agreements;
- notice of Permission to Operate (or similar document) provided by local distribution company or utility;
- any supplemental financing or financing incentives (e.g., grants, tax credits, etc.) used by the [Borrower](#) to finance the [Solar PV System](#) to determine if any competing liens or other restrictions might result;
- any leases or contractual arrangements, such as agreements for
 - renewable energy certificates,
 - solar renewable energy certificates, or
 - purchasing power; and
- confirming that [Borrower](#) will not be deemed a public utility.

110.03 Solar PV System Module

Requirements

The [PCA](#) must include an evaluation of the [Solar PV System](#) equipment and roofs/structures where the equipment is mounted per the [Solar PV Module of Form 4099](#).

110.04 Underwritten NCF

Requirements

When calculating [Underwritten NCF](#):

- do not include any income derived from the [Solar PV System](#), except for tenant utility reimbursement;
- any utility reimbursement income must
 - not exceed the trailing 12-month period, and



- consider any decrease from the lower utility expense;
- utility expense must be supported by the trailing 12-month operating history; and
- include all additional **Solar PV System** operating expenses such as:
 - operating and maintenance contract fees;
 - fixed utility fees;
 - incremental real estate taxes;
 - insurance coverage; and
 - **Replacement Reserves** for equipment replacement and/or system removal and reinstallation upon roof replacement.

Section 111 Oil/Gas Wells and Mineral Exploration

111.01 Active Oil and Gas Wells

Requirements

You must ensure the **Property** has no evidence of any surface entry related to active mineral, oil, or gas activities.

For **Properties** with mineral, oil, or gas exploration on an adjacent property, you must:

- Identify whether the exploration is active or inactive.
- Deliver a **Phase I ESA** for the **Property** reporting no Recognized Environmental Conditions.
- Confirm all mineral, oil, or gas:
 - equipment is located more than 600 feet from any **Property** boundary line; and
 - exploration on the adjacent property does not impact the health or safety of the **Property's** tenants or have a material adverse impact to its marketability.
- Confirm:
 - the adjacent property is not owned by an **Affiliate** of the **Borrower**;
 - and
 - either:



- no history of spills or leaks exists; or
- if spills or leaks have occurred, all applicable permits are in place.

➔ Guidance

Evidence of active mineral, oil, or gas activities on the [Property](#) may include:

- wells associated with production, exploration, or extraction;
- active storage or processing; or
- associated pits, ponds, or lagoons.

111.02 Inactive Oil and Gas Wells

☑ Requirements

You must ensure the [Property](#) has no evidence of inactive mineral, oil, or gas equipment, unless:

- the [Property's Phase I ESA](#) is acceptable;
- if the [Property](#) is subject to an oil and gas lease, the lease complies with [Part II, Chapter 1: Attributes and Characteristics, Section 109.02B: Non-Material Commercial Lease Types](#); and
- for a refinance, all mineral, oil, or gas equipment has been removed, capped, and closed per regulatory requirements before closing, and you have a permit or closure letter from the governing authority; or
- for an ~~acquisition~~ [Acquisition](#), you:
 - require the mineral, oil, or gas equipment/wells to be removed, capped, and closed per regulatory requirements within 180 days after the [Mortgage Loan](#) closing;
 - escrow the applicable cost to remove equipment, close wells, and remediate the site per regulatory requirements;
 - receive a permit or closure letter from the governing authority; and
 - modify the Environmental Indemnity Agreement as required by Fannie Mae.



Section 112 Property Management and Agreement

112.01 Property Management

✓ Requirements

You must ensure/confirm the Property's management team is adequate or company:

- manages other assets in the Property's same geographic area; and
- has adequate staffing and expertise
 - managing similar
 - multifamily assets, and
 - regulatory restrictions, and
 - to ensure effective
 - administration,
 - leasing,
 - marketing, and
 - maintenance.

➔ Guidance

An independent, professional Property management company is not required. However, when analyzing Property management, you should consider if the management team:

- has adequate experience to ensure effective Property
 - administration,
 - leasing,
 - marketing, and
 - maintenance; and
- is staffed appropriately for the
 - Property type and size, and
 - services provided.



112.02 Property Management Agreement

Requirements

If the **Borrower** is not the **Property** manager, you must ensure the:

- **Borrower** has a written management agreement with a **Property** management company allowing **Lender** cancellation without penalty or prior notice in case of a **Borrower** default per the **Loan Documents**; or
- **Borrower** and **Property** manager complete the Assignment of Management Agreement (**Form 6405**).

Guidance

You should ensure the **Property** management agreement clearly states the

- **Property** manager's responsibilities, and
- amount of the management fee (or fee determination methodology).



Chapter 4

Lease Audits, Inspections, and Reserves

Section 401

Site Inspection and Lease Audit

Requirements

Before the ~~Commitment Date~~, you must ensure:

- 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; 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.

401.01 Generally

Requirements

Before the Commitment Date, you must:

- complete a thorough lease audit to reconcile the rent roll with the Property's signed leases; and
- comply with the following table.

Lease Audit Review	
For Properties with...	You must review at least...
<u>5 - 9 units</u>	<u>all available leases.</u>
<u>10 - 100 units</u>	<u>the greater of</u> <ul style="list-style-type: none">• <u>5 units or</u>• <u>10% of all leases.</u>
<u>101 - 300 units</u>	<u>10% of all leases.</u>
<u>301 - 900 units</u>	<u>40 leases.</u>



Lease Audit Review	
For Properties with...	You must review at least...
901+ units	50 leases.

When auditing the leases, you must:

- analyze the entire tenant file, including, whenever available
 - identification records,
 - verification of employment and income, and
 - credit verifications;
- audit leases for all inspected units;
- include new and recently renewed leases to verify rent trends;
- increase the number of leases reviewed if you find
 - material discrepancies, or
 - lack of adequate documentation in the files;
- document your results in a lease audit form; and
- summarize the results in your Transaction Approval Memo, including any documents that were unavailable for review, and why.

If the management company engages a third party to review and approve the tenant qualification documents, you must:

- review the documents; and
- explain your rationale in the Transaction Approval Memo if any documents are unavailable for review (e.g., a national tenant qualification firm completed and documented the review, etc.).

401.02 Lease Audit Notification

Requirements

Before the inspection, you must email the Borrower and management company:



- specifying the minimum lease audit requirements; and
- requesting full records access to ensure your ability to perform additional due diligence for any identified critical issues.

401.03 Validating Rent Collections, Bad Debt, and Secondary Income

Requirements

When validating rent collections, you must:

- review 1 of the following:
 - a cash ledger;
 - receipts journal;
 - at least 3 months of bank statements confirming the rent deposits; or
 - similar documents;
- meet with the site manager to obtain and discuss:
 - an accounts receivable report; or
 - past rent due report;
- compile a lease audit form or record to validate the lease terms against the [Property's](#) rent roll;
- include your lease audit form with your underwriting documents delivered to [DocWay](#); and
- document your findings in the Transaction Approval Memo.

You must use the [Appraisal](#), other comparable [Property](#) information, or third-party data sources to validate secondary income related to:

- ratio utility billing system (RUBS);
- cable;
- laundry;
- parking; or
- any other tenant income.



→ Guidance

You should confirm the management company uses:

- acceptable practices for day-to-day operations; and
- industry-standard software systems to generate detailed reports.

You may obtain sample management company reports, such as

- rent rolls,
- operating statements,
- operating budgets,
- capital improvement plans, and
- marketing.

Section 402

Site Inspections

402.01 Physical Inspections

402.01A Generally

Requirements

You must:

- before the Commitment Date, ensure your qualified employee per Part V, Chapter 5: Surveillance, Section 502.05A: Qualifications:
 - performs a physical Property inspection;
 - confirms the status of all units selected for inspection below (e.g., whether occupied or vacant), per a current rent roll;
 - completes the MBA Standard Inspection Form using their own photos; and
 - compares the consistency of their photos with the
 - PCA, and
 - Appraisal; and
- not Deliver any Mortgage Loan secured by a Property with an overall condition rating of 4 or 5 per the Comprehensive Assessment tab of



the [MBA Standard Inspection Form](#).

402.01B [Selecting Units](#)

[Requirements](#)

To determine the minimum number of units to inspect, you must:

- [use the Physical Property Inspection table; and](#)
- [increase the number by 25% if some units are not accessible.](#)

Physical Property Inspection	
For Properties with...	You must inspect at least...
5 - 9 units	all available units.
10 - 100 units	the greater of <ul style="list-style-type: none">• 5 units or• 10% of all units.
101 - 300 units	10% of all units.
301 - 900 units	40 units.
901+ units	50 units.

When choosing which units to inspect, you must:

- [randomly select floors and units;](#)
- [include:](#)
 - [all unit types and as many different floors as possible;](#)
 - [units from all buildings;](#)
 - [all units vacant for more than 90 days, unless the Property is a \[Near Stabilized Property\]\(#\);](#)
 - [all down units \(i.e., units that cannot currently be rented in the normal course of business\); and](#)
 - [any additional units you deem appropriate based on](#)
 - [Property type,](#)
 - [other factors, or](#)



- the results of your initial inspection.

402.01C Inspection Notification

Requirements

Before the inspection, you must email the Borrower and management company to:

- request access to units selected for inspection; and
- notify them that, if any selected units are unavailable, an additional 25% of the units required to be sampled per Selecting Units (22201) must be inspected (e.g., for a 500 unit building requiring 40 units to be inspected, if selected units are unavailable, an additional 10 units must be inspected).

402.02 Capital Item Replacements

Requirements

For replacement of capital items, you must:

- for refinances, obtain:
 - an itemized list of capital items completed within the last 24 months; and
 - for any capital item replacements you cannot independently confirm were completed, the invoices showing the associated actual costs;
- use best efforts to obtain the PCA Consultant's written confirmation that capital items were completed;
- evaluate the Property's actual condition, considering:
 - the list of capital items reportedly completed within the last 24 months; and
 - their associated actual costs;
- confirm with the Appraiser that the actual cost of capital items completed within the last 12 months was factored into the Appraised Value; and



- document your analysis in the Transaction Approval Memo.

<u>Transaction Approval Memo Documentation</u>	
<u>For...</u>	<u>You must document the...</u>
<u>Interior Unit Renovations</u>	<ul style="list-style-type: none"> • <u>specific scope, and</u> • <u>estimated percentage of units updated.</u>
<u>Replacements of capital items for refinances</u>	<ul style="list-style-type: none"> • <u>work has been completed based on:</u> <ul style="list-style-type: none"> - <u>an inspection by</u> <ul style="list-style-type: none"> ▪ <u>you, or</u> ▪ <u>the PCA Consultant, or</u> - <u>invoices or documentation; or</u> • <u>if the work completed cannot be verified, request invoices or other documentation to confirm its completion.</u>

Section 402-403 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...
DUS Gateway	<ul style="list-style-type: none">• Broker/Correspondent Company Name; and• Broker/Correspondent Individual Name.
Acquisition Systems	<ul style="list-style-type: none">• Broker/Correspondent Company; and• fees paid to the Broker or Correspondent.

Section ~~403~~404 Property Condition Assessment (PCA)

~~403.01~~ When to Perform a PCA

404.01

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.

~~403.02~~ Date of PCA Report and PCA Site Visit

404.02

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.

403.03 Conducting the PCA

404.03

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 404-405 Completion/Repairs

404.01 Property Evaluation

405.01

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.
 - assess the
 - Property's physical condition;
 - Borrower's financial condition; and
 - life safety Completion/Repairs;
 - aggregate all Completion/Repairs expenses with the cost of all other Rehabilitation Work to determine if Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans also applies;
 - include in the Completion/Repair Schedule:
 - 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 the Property's "as completed" market value; and
1. ensure the Borrower completes the repairs and improvements identified on the Completion/Repair Schedule:
- per the Completion/Repairs Timing table; and
 - assess any code violations and include them in the relevant category.

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:

Completion/Repairs Timing	
For...	You must...
<u>Life safety repairs in the PCA</u>	<u>Comply with Part II, Chapter 4: Inspections and Reserves, Section 404.03: Life Safety Issues.</u>
<u>Critical repairs in the PCA</u>	<u>Complete within 6 months after the Mortgage Loan Origination Date, or sooner if recommended by the PCA Consultant.</u>
<u>Repairs in the PCA required to:</u> <ul style="list-style-type: none"> - <u>comply with</u> <ul style="list-style-type: none"> ▪ <u>the Americans With Disabilities Act, or</u> ▪ <u>Fair Housing; or</u> - <u>resolve code violations</u> 	<u>Complete within 90 days or less per</u> <ul style="list-style-type: none"> - <u>applicable laws,</u> - <u>ordinances, or</u> - <u>building codes.</u>
<u>Deferred maintenance or items of note in the PCA</u>	<u>Complete within 12 months after the Mortgage Loan Origination Date, or sooner if recommended by the PCA Consultant.</u>
<u>Short-term replacement of capital items in the PCA</u>	<u>Complete by the specific date recommended by the PCA Consultant, but may be longer than 12 months after the Mortgage Loan Origination Date.</u>
<u>Capital improvements that</u> <ul style="list-style-type: none"> - <u>will be completed by the Borrower in addition to those in the PCA, and</u> - <u>are included in the Appraisal's "as completed" market value</u> 	<u>Comply with Part II, Chapter 2: Valuation and Income, Section 202.03A: Appraised Value.</u>



Completion/Repairs Timing	
For...	You must...
Completion/Repairs in the PCA that require compliance with Part III, Chapter 3 for a Moderate Rehabilitation Property	Comply with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans.
All other Rehabilitation Work not identified as a Completion/Repair in the PCA	Comply with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans.

➔ 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 404.03: 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 - included in the Appraisal opinion of the Property's market value on an "as completed" basis 	Comply with Part II, Chapter 2: Valuation and Income, Section 202.03A: Appraised Value.



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

404.02 Completion/Repairs Funding

405.02

☑ 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.

404.03 Life Safety Issues

405.03

☑ 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](#).

~~404.04~~ Verifying Completion/Repairs

~~405.04~~

☑ 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 ~~405-406~~ Replacement Reserve

~~405.01~~ Determining Replacement Reserve

~~406.01~~

☑ 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); and
- 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.

405.02 Replacement Reserve Funding

406.02

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](#).

405.03 Alternative Replacement Reserve Funding

406.03

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 406-407 Escrow Requirements for Taxes and Insurance

406.01 Escrows

407.01

Requirements

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

406.02 Real Estate Tax Escrow Funding

407.02

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.

406.03 Insurance Escrow Funding

407.03

 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.



GLOSSARY

■ **ACheck**

Lender due diligence performed for the Borrower, Key Principal, and Principal using the ACheck™ application.

Synonyms

Applicant Experience Check

■ **Acquisition**

Any Purchase of either the:

- Property's fee simple or leasehold interest via a deed transfer; or
- Controlling Interest in the Borrower.

Synonyms

Acquisitions

■ **Immediate Family Member**

An individual's child, stepchild, grandchild, grandparent, spouse, sibling, step-sibling, parent, or step-parent.

Synonyms

Immediate Family Members

■ **Lender Senior Executive**

For any Lender any:

- a. senior executive officer serving as its president, chief executive officer, chief financial officer, chief operating officer, chief production officer, chief underwriter, chief asset manager, chief legal officer, chief information security officer, chief compliance officer, or substantially equivalent position;
- b. individual with voting or approval rights over whether the Lender commits to make a Mortgage Loan; or



c. family member Immediate Family Member of, or individual having a close relationship with, any individual identified in (a) or (b).

Synonyms

Lender Senior Executives

■ **Limited Experienced Owner**

Any Sponsor, Key Principal, or Guarantor who has either:

- never obtained a prior Fannie Mae multifamily Mortgage Loan; or
- during the last 10 years, not owned a Controlling Interest in one or more multifamily properties for at least:
 - 5 consecutive years; or
 - 2 consecutive years if the Sponsor, Key Principal, or Guarantor would qualify as a Local Borrower for a Small Mortgage Loan with properties of similar
 - size, and
 - asset type.

Regardless of the requirements above, a Sponsor, Key Principal, or Guarantor is not a Limited Experienced Owner if they:

- are a fund Sponsor whose other current or historical funds under its Control satisfy these requirements; or
- currently have a controlling interest in more than 1,000 multifamily units.

Synonyms

Limited Experienced Owners

■ **PCA Consultant**

Individual or firm conducting a PCA and preparing a PCA Report.

Synonyms



PCA Consultant's

■ **Principal**

Person who owns or controls, in the aggregate, directly or indirectly (together with that Person's Immediate Family Members, if an individual), specified interests in the Borrower per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 303: Key Principals, Principals, and Guarantors.

Synonyms

Principals

■ **Schedule of Real Estate Owned**

Certified document listing all real estate equity interests the Person owns.

Synonyms

SREO