



Fannie Mae®

Multifamily Selling and Servicing Guide

Effective as of April 14, 2025

No portion of this Multifamily Selling and Servicing Guide may be reproduced in any form or by any means without Fannie Mae's prior written permission, except as may be provided herein or unless otherwise permitted by law. Limited permission to reproduce this Multifamily Selling and Servicing Guide in print, in whole or in part, and limited permission to distribute electronically parts of this Multifamily Selling and Servicing Guide, are granted to Fannie Mae-approved Lenders strictly for their own use in originating and selling multifamily Mortgage Loans to, and servicing multifamily Mortgage Loans for, Fannie Mae. Fannie Mae may revoke this limited permission by sending 60 days advance written notice to any or all Fannie Mae-approved Lenders.



TABLE OF CONTENTS

Summary of Changes	4
Part I Chapter 3 Borrower, Guarantor, Key Principals, and Principals	6
Section 301 Generally	6
Section 302 Borrower Organizational Structure	7
302.01 Single-Asset Entity	7
302.02 Co-Tenant Borrowers	9
302.02 A Tenancy-in-Common Agreement	9
302.02 B Key Principal Execution of Guaranty	11
302.03 Joint and Several Borrowers with Multiple Properties	11
Section 303 Key Principals, Principals, and Guarantors	12
303.01 Generally	12
303.02 Entity Review	16
303.03 Fund Review	16
Section 304 Limited Experience Owner	17
Section 305 Financial Statements	19
Section 306 Schedule of Real Estate Owned (SREO)	20
Section 307 Certifications	21
307.01 Multifamily Underwriting Certificate (Form 6460)	21
307.02 Brokered Transaction Certifications	22
Section 308 Fraudulent Conveyance	23
Section 309 Applicant Experience Check	24
Section 310 Compliance	26
Section 311 Execution of Non-Recourse Guaranty	27
Section 312 Conflict Mortgage Loans	28
312.01 Description	28
312.02 Restrictions	31
312.02 A Underwriting	31
312.02 B Servicing	32
312.02 C No First Right of Refusal	33
312.02 D Additional Disclosure	33
312.02 E Notifications	33
Part III Chapter 16 Mezzanine Financing and Preferred Equity	34
Section 1601 Mezzanine Financing	34
1601.01 Description	34
1601.01 A Eligible Mortgage Loans	34
1601.01 B Eligible Terms	34
1601.01 C Loss Sharing	35
1601.01 D Lender's Loan Application	35
1601.02 Underwriting	35
1601.03 Submission	38
1601.03 A Materials	38
1601.03 B Data	38



1601.04 Intercreditor Agreement	39
1601.05 Servicing	39
Section 1602 Preferred Equity	39
1602.01 Description	40
1602.01 A Definitions	40
1602.01 B Exclusions	41
1602.01 C Eligible Mortgage Loans	42
1602.01 D Structures	42
1602.01 E Limitations	42
1602.01 F Lender's Loan Application	43
1602.02 Underwriting	44
1602.03 Hard Preferred Equity	45
1602.03 A Submission	45
1602.03 B Outside Counsel and Due Diligence Fees	46
GLOSSARY	47



Summary of Changes

HIGHLIGHTS

Effective for Mortgage Loans Committed as of April 14, 2025:

- updated:
 - Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 303: Key Principals, Principals, and Guarantors; and
 - Part III, Chapter 16: Mezzanine Financing and Preferred Equity, Section 1602 for Preferred Equity requirements;
- created a new
 - Preferred Equity Checklist (Form 6441), and
 - Preferred Equity Operating Procedures Job Aid; and
- aligned Preferred Equity guidance in
 - Multifamily Asset Management Delegated Transaction: Transfer/Assumption (Form 4636.TA), and
 - Multifamily Additional Disclosure Guidance (Form 4098).

Primary Changes

■ Updated:

- Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 303: Key Principals, Principals, and Guarantors, requiring you to review organizational documents to determine needed compliance with Part III, Chapter 16: Mezzanine Financing and Preferred Equity, Section 1602;
- Part III, Chapter 16: Mezzanine Financing and Preferred Equity, Section 1602 requiring you to comply with the Preferred Equity Checklist (Form 6441);
- Multifamily Asset Management Delegated Transaction: Transfer/Assumption (Form 4636.TA); and
- Multifamily Additional Disclosure Guidance (Form 4098).

■ Created a new:

- Preferred Equity Checklist (Form 6441) to:
 - define 3 types of Preferred Equity structures that allow more flexibility;
 - continue delegation for Soft Pay Preferred Equity (previously Soft Preferred Equity);



- clarify Mandatory Pay Preferred Equity (new classification) and Hard Pay Preferred Equity (previously Hard Preferred Equity) are subject to Pre-Review;
- specify underwriting requirements for the 3 types of Preferred Equity structures, providing additional clarity on:
 - loan sizing requirements, if applicable; and
 - credit underwriting requirements for Preferred Equity investors;
- outline permitted Preferred Equity Default Triggers;
- specify Limitations on Equity Terms; and
- require Pre-Review for any transactions with terms outside of Form 6441; and
- Preferred Equity Operating Procedures Job Aid.

Questions

Please contact Kathleen Iskra at (312) 368-6073, or at kathleen_iskra@fanniemae.com, with any questions.



Chapter 3

Section 301

Borrower, Guarantor, Key Principals, and Principals

Generally

Requirements

You must:

- perform a risk assessment of the [Borrower, Guarantor, Key Principals, and Principals](#) based solely on objective credit standards;
- 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 310: 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.

Section 302 Borrower Organizational Structure

302.01 Single-Asset Entity

Requirements



You must ensure:

- the **Borrower** is a domestic single-asset entity 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~~ **has been** a single-asset entity since formation, 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~~ **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.~~



- Obtain proof that no direct or indirect equity interest in the Borrower is 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**;
 - 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 311: 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 owned, directly or indirectly, by the same **Persons** having the same percentage ownership interests;
- 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

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.
- comply with Part III, Chapter 16: Mezzanine Financing and Preferred Equity, Section 1602: Preferred Equity if the organizational documents provide any investor having a direct or indirect ownership interest in the Borrower with:
 - unequal rights to receive dividends, distributions, payments, or returns relative to other equity owners; or
 - the right to, directly or indirectly, force a
 - sale of the Property,
 - transfer of the direct or indirect ownership interests in the Borrower, or
 - transfer of the Controlling Interest in the Borrower, Key Principal, or Guarantor; and
- identify:
 - as a Key Principal any Person with control takeover rights per the Preferred Equity Checklist (Form 6441); and
 - 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...
General Partnership or Joint Venture	any general partner or joint venturer.



Limited Partnership	<ul style="list-style-type: none">• all general partners;• any Person who owns, directly or indirectly, an aggregate 25% or more limited partnership interest in the Borrower through any single limited partner; and• any Person who owns, directly or indirectly, an aggregate 25% or more limited partnership interest in the Borrower through multiple limited partners.
Privately-Held Corporation	any Person who owns 25% or more of the voting stock in the Borrower .
Limited Liability Company	<ul style="list-style-type: none">• all non-member managers or member-managers;• any Person who owns, directly or indirectly, an aggregate 25% or more membership interest in the Borrower through any single member; and• any Person who owns, directly or indirectly, an aggregate 25% or more membership interest in the Borrower through multiple members.
Co-Tenant Borrower	any Person who owns, directly or indirectly, a 25% or more ownership interest in each co-tenant.
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 Reality, 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%
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**.

303.02 Entity Review

➔ Guidance

When you review an entity, consider the following questions:

- 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**?

303.03 Fund Review

➔ 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 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 310: Compliance.

For all financial statements, you must collect:

- a list of all other assets, including
 - notes receivable from related entities, and
 - an estimate of the market value of each asset 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, with their amount and timing.

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 307 Certifications

307.01 Multifamily Underwriting Certificate (Form 6460)

☒ 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 Commitment Date; or
 - includes a certification of no material adverse changes to the financial condition shown in the financial statements delivered per the Form 6460 from each of the
 - Borrower,
 - Key Principals, and
 - Guarantor.

307.02 Brokered Transaction Certifications

☒ Requirements

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

- financial statements and schedules to you, including:
 - Property rent rolls;



- Cooperative Maintenance Fee schedules;
 - Property operating statements;
 - Borrower financial statements; and
 - other related documents; and
- 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 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 309 Applicant Experience Check

☒ Requirements

For all [Mortgage Loan](#) applications and any [Transfer/Assumption](#), you must:

- 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.

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



Guidance

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

Operating Procedures

The [ACheck](#) application is available at <https://multifamily.fanniemae.com/applications-technology/acheck>.

ACheck Frequently Asked Questions	
Question	Answer
What information do you need to perform an ACheck?	The applicant's <ul style="list-style-type: none">• tax identification number, or• Social Security number.
How do you view ACheck results?	The ACheck application will immediately respond either <ul style="list-style-type: none">• “You can proceed”, or• “Do not continue processing”.
What must you do if you receive a "You can proceed" response?	For each applicant, you must: <ul style="list-style-type: none">• receive a “You can proceed” response to proceed with the Mortgage Loan application;• complete full credit underwriting; and• not interpret this ACheck response to mean the applicant is approved.



ACheck Frequently Asked Questions	
Question	Answer
What must you do if you receive a "Do not continue processing" response?	<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">• comply with all ACheck instructions; and• not proceed with the application by omitting any Borrower, Key Principal, Principal, or Guarantor who received a "Do Not Process" response.
What about confidentiality?	<ul style="list-style-type: none">• Fannie Mae will not provide any information regarding a "Do not continue processing" response for a particular<ul style="list-style-type: none">- Borrower,- Key Principal,- Principal, or- Guarantor.• You must establish procedures ensuring all ACheck responses remain confidential.

Section 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 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
- **Key Principal** (who would otherwise be the **Guarantor**) is a publicly traded entity.

Section 312 Conflict Mortgage Loans

312.01 Description

☒ Requirements



Conflict Mortgage Loan Type	
Conflict Mortgage Loan	<ul style="list-style-type: none">• Any Mortgage Loan in which:<ul style="list-style-type: none">- you, or any of your Lender Affiliates or Lender Senior Executives<ul style="list-style-type: none">▪ owns (or will own) any direct or indirect equity interest in the Borrower, or▪ directly or indirectly controls the Borrower; or- any of your employees, or a group of your employees, owns (or will own) more than a 5% direct or indirect equity interest in the Borrower.• Any Mortgage Loan with DLA Mezzanine Financing. <p>Any equity interest you acquire in the Borrower relating solely to obtaining the associated LIHTCs is not considered when determining if the Mortgage Loan is a Conflict Mortgage Loan (see Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 709: LIHTC Properties – Lender Equity Interest).</p>
Prohibited Conflict Mortgage Loan	<p>Any Mortgage Loan in which:</p> <ul style="list-style-type: none">• you or any single Lender Senior Executive of yours owns more than a 5% direct or indirect equity interest in the Borrower;• any group of your Lender Senior Executives together owns more than a 10% direct or indirect equity interest in the Borrower; or• you or any of your Lender Affiliates is the Property manager.



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

You must not



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

312.02 Restrictions

312.02A Underwriting

Requirements

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

You must include the following in your Transaction Approval Memo:

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

In addition, your underwriting submission must include:

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



- relationship among the [Lender](#), [Borrower](#), and applicable [Lender Affiliate](#); and
- percentage ownership of each entity.

Operating Procedures

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

312.02B Servicing

Requirements

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

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

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

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

Operating Procedures

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



and C relating to Fannie Mae initiated servicing transfers. After servicing is transferred, you will retain your loss sharing obligation.

312.02C No First Right of Refusal

Requirements

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

312.02D Additional Disclosure

Operating Procedures

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

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

312.02E Notifications

Requirements

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



Chapter 16 Mezzanine Financing and Preferred Equity

Section 1601 Mezzanine Financing

1601.01 Description

☒ Requirements

A Mortgage Loan with Mezzanine Financing is permitted only if

- the Mezzanine Financing is originated by an approved DUS Lender Affiliate (DLA Mezzanine Financing), or
- Fannie Mae approves the Mezzanine Financing from another source (non-DLA Mezzanine Financing) on a case-by-case basis.

Before underwriting non-DLA Mezzanine Financing, you must contact the Deal Team.

1601.01A Eligible Mortgage Loans

☒ Requirements

Mortgage Loans with Mezzanine Financing must:

- be newly originated;
- have an original principal balance of at least
 - \$10 million, for DLA Mezzanine Financing, or
 - \$50 million, for non-DLA Mezzanine Financing;
- be fixed rate; and
- be flagged for MBS additional disclosure per Form 4098.

1601.01B Eligible Terms

☒ Requirements

Mezzanine Financing must:

- have a fixed rate or fixed mezzanine rate of return without escalations;
- not have a maturity date, redemption date, trigger date, or require repayment of the Mezzanine Financing during the term of the



Mortgage Loan; and

- have a minimum \$1 million origination balance.

1601.01C Loss Sharing

☒ Requirements

Loss sharing is required on all Mortgage Loans with Mezzanine Financing.

1601.01D Lender's Loan Application

☒ Requirements

Your loan application form must:

- require the Borrower to indicate whether it has or intends to obtain Mezzanine Financing as part of its organizational or capital structure; and
- inform the Borrower that you may delay approval or revoke any prior approval if the Borrower changes its intention to obtain Mezzanine Financing.

1601.02 Underwriting

☒ Requirements

You must comply with the following table.

Topic	Requirements
Income Projections	<ul style="list-style-type: none">• Provide support for the income projections used to determine the aggregate amount of the Mortgage Loan and Mezzanine Financing.• Demonstrate that the local economics are sufficient and sustainable to support both loans.



Topic	Requirements
Underwritten NCF	<p>Use the same Underwritten NCF to determine the loan amount for</p> <ul style="list-style-type: none">• the Mortgage Loan, and• the Mezzanine Financing.
Refinance Analysis	<p>Prepare a refinance analysis that:</p> <ul style="list-style-type: none">• incorporates the terms of both the Mortgage Loan and the Mezzanine Financing;• demonstrates that the Borrower will<ul style="list-style-type: none">- maintain a positive equity position in the Property throughout the term of the Mortgage Loan, or- have some other incentive (e.g., continuing cash flow) to remain committed to the Property and its successful operation;and• concludes that there will be sufficient cash flow, NCF growth, and residual value to pay off the Mortgage Loan and the Mezzanine Financing at maturity (as fully extended, if applicable).



Topic	Requirements
Experience	<p>Ensure that the Sponsor and each Key Principal have sufficient net worth, liquidity, and experience with the Property type and market to justify the origination of the Mortgage Loan and the Mezzanine Financing.</p> <p>If upgrades or rehabilitation are being financed by the Mezzanine Financing, then ensure that the Borrower, each Key Principal, and the mezzanine borrower also have</p> <ul style="list-style-type: none">• sufficient experience managing the scope of the proposed rehabilitation, and• strong property management experience in the local market.
Mezzanine Borrower Structure	<p>Ensure the mezzanine borrower is</p> <ul style="list-style-type: none">• a newly-formed, special purpose, bankruptcy-remote limited liability company or limited partnership,• the sole owner of the Borrower, and• wholly-owned by the Principals of the Borrower.
Appraisal	<p>If the Mezzanine Financing is funding rehabilitation, ensure the Appraisal states the Property's “as is” and “as completed” values.</p>



Topic	Requirements
Third-Party Reports	<p>For Mortgage Loans with DLA Mezzanine Financing, include in the underwriting submission, on behalf of your DL Mezzanine Affiliate any:</p> <ul style="list-style-type: none">• internal or third-party inspection reports;• PCAs; and• architect's or engineer's reports (or other similar reports) related to the Mezzanine Financing.

Guidance

You may require a Completion Guaranty (Form 6018).

The DUS Lender Mezzanine Affiliate may also require a completion guaranty from the Mezzanine Financing borrower.

1601.03 Submission

1601.03A Materials

Operating Procedures

You must submit the following in DUS Gateway when you submit the Mortgage Loan underwriting:

- the Mezzanine Financing sizing model;
- a sources and uses of funds reflecting the Mezzanine Financing proceeds;
- any approvals associated with the Mezzanine Financing; and
- for any Mezzanine Financing that finances rehabilitation:
 - a description of the proposed rehabilitation;
 - the approved rehabilitation budget;
 - the rehabilitation timeline; and
 - the construction or rehabilitation documents.

1601.03B Data



Operating Procedures

To obtain a [Commitment](#), you must complete the [Mezzanine Financing](#) fields in [DUS Gateway](#).

1601.04 Intercreditor Agreement

Requirements

For each [Mortgage Loan](#) with [Mezzanine Financing](#), you and the [Mezzanine Financing](#) lender must execute an intercreditor agreement approved by Fannie Mae.

Operating Procedures

The [Borrower](#) must pay the legal fees if Fannie Mae engages outside counsel to review any intercreditor agreements. These fees are non-refundable, and you must pay the counsel retainer when you submit the underwriting.

Guidance

You may charge the [Borrower](#) your own legal and due diligence fees.

1601.05 Servicing

Operating Procedures

You must service, report, and remit on the [DLA Mezzanine Financing](#) per Part V.

In all cases, you, as servicer of the [DLA Mezzanine Financing](#), must promptly notify Fannie Mae of any default on the [Mezzanine Financing](#).

Section 1602

Preferred Equity

Requirements

For any [Mortgage Loan](#) with Preferred Equity in the [Borrower's](#) ownership structure, you must comply with the

- [Preferred Equity Checklist \(Form 6441\)](#), and
- [Preferred Equity Operating Procedures Job Aid](#).



→ Guidance

This Section does not apply to any Borrower organizational or capital structures relating solely to the allocation of LIHTCs.

✕ Operating Procedures

You must submit:

- a completed Preferred Equity Checklist (Form 6441) using:
 - DUS Gateway if the Borrower's ownership structure includes any Preferred Equity requiring Pre-Review per Form 6441; or
 - DUS DocWay with the Mortgage Loan Delivery Package in Folder II if the Borrower's ownership structure does not include Preferred Equity requiring Pre-Review per Form 6441; and
- Multifamily Underwriting Certificate (Key Principal) (Form 6460.Key Principal) for all Preferred Equity investors identified as Key Principals per Form 6441 with the Mortgage Loan Delivery Package in Folder II in DUS DocWay.

1602.01 Description

1602.01A Definitions

☑ Requirements

Preferred Equity is an equity investment in an entity where the holder is entitled to preferred dividends, distributions, payments, or returns relative to the other equity owners.

Fannie Mae defines 2 types of Preferred Equity.



Type	Definition
Soft Preferred Equity	Preferred Equity that: <ul style="list-style-type: none">• only requires preferred payments or returns to the holder if cash flow from the Property is sufficient to make the payments or returns after satisfying the payment, reserve, escrow, and funding obligations of the Mortgage Loan and all Property operating expenses;• has organizational documents that explicitly state that the preferred return may accrue if cash flow from operations is insufficient to pay the return; and• does not have a maturity date, redemption date, trigger date, or require repayment during the term of the Mortgage Loan.
Hard Preferred Equity	Preferred Equity that requires preferred payments or returns to the holder, regardless of whether cash flow from the Property is sufficient to make the payments or returns.

1602.01B Exclusions

➔ Guidance

This Section does not apply to:

- Soft Preferred Equity that does not benefit from any remedial rights related to the failure to make or pay any preferred payment or return; or
- any **Borrower** organizational or capital structures relating solely to the allocation of **LIHTCs**.

For example, **Part III, Chapter 16: Mezzanine Financing and Preferred Equity, Section 1602: Preferred Equity** does not apply to:

- Soft Preferred Equity that is Preferred Equity only because of “promoted interest” or priority “waterfall” distributions in the organizational structure of the **Borrower**, but does not otherwise benefit from remedial rights when distributions are not paid or made.



- Instances where a provision in the Borrower's organizational documents allows or requires a forced sale of the Property to a third party in an arm's length transaction
 - if preferred payments or returns are not made, or
 - for standard non-recourse guaranties.

1602.01C Eligible Mortgage Loans

Requirements

Mortgage Loans with Preferred Equity structures must:

- be newly originated;
- be fixed rate; and
- for Hard Preferred Equity,
 - have an original principal balance of at least \$10 million, and
 - be flagged for MBS additional disclosure per Form 4098.

1602.01D Structures

Guidance

Preferred Equity may be structured in a variety of ways, and appear similar to a traditional equity investment, while having rights or remedies similar to debt, such as Mezzanine Financing.

To determine if the Preferred Equity is Soft or Hard, you should analyze the:

- Borrower's organizational and capital structure;
- Borrower's applicable joint venture or operating agreement with the Preferred Equity provider; and
- rights and remedies of the direct and indirect equity owners against the Borrower.

1602.01E Limitations

Requirements



Preferred Equity must:

- not have a maturity date, redemption date, trigger date, or require repayment during the term of the [Mortgage Loan](#);
- have a fixed rate of return without escalations during the term of the [Mortgage Loan](#);
- not include cash flow sweeps above the stated return;
- not be cross-collateralized with multiple assets;
- for a deal that has both a Hard Preferred Equity return and Soft Preferred Equity return, be underwritten using the total combined preferred return to calculate the [DSCR](#) per [Form 4660](#);
- not have intercreditor or recognition agreements between you and the Preferred Equity holder; all rights of the Preferred Equity holder that you recognize must be contained in the [Loan Documents](#);
- not have side letters; all information, terms, and conditions relating to the Preferred Equity must be contained in the organizational documents; and
- for Hard Preferred Equity, not be less than \$1 million.

You must underwrite the Preferred Equity as Hard Preferred Equity, if any of the following apply:

- the organizational documents do not explicitly state that the preferred return may accrue if cash flow from operations is insufficient to pay the preferred return;
- there are remedies associated with operating benchmarks such as [NCF](#), [NOI](#), or other operating thresholds;
- there are reserves to ensure the payment of the preferred return; or
- the holder of Preferred Equity benefits from a
 - pledge of the general partner's or managing member's interest in the [Borrower](#), or any direct or indirect owner of the [Borrower](#), or
 - guaranty or indemnity from the general partner, managing member, or manager of the [Borrower](#) (or any parent or other [Person Controlling](#) any of them) with respect to the preferred payment or returns. If a guaranty or indemnity is executed by the [Key Principal](#) executing a [Guaranty](#) for the [Mortgage Loan](#), the guaranty or indemnity of the preferred payment or returns must be expressly subordinate to the [Guaranty](#) for the [Mortgage Loan](#).



1602.01F Lender's Loan Application

☒ Requirements

Your loan application form must:

- require the Borrower to indicate whether it has or intends to obtain Preferred Equity as part of its organizational or capital structure; and
- inform the Borrower that you may delay approval or revoke any prior approval if the Borrower changes its intention to obtain Mezzanine Financing.

1602.02 Underwriting

☒ Requirements

For any Mortgage Loan with Preferred Equity, you must comply with the following table.

Topic	Requirements
Guaranty	<p>If the holder of the Preferred Equity benefits from a guaranty or similar indemnity that contains recourse events or similar obligations not otherwise contained in the Loan Documents, you must</p> <ul style="list-style-type: none">• submit the modifications to Fannie Mae for review and approval, and• if approved by Fannie Mae, add the events or obligations to the appropriate Loan Document.



Topic	Requirements
Refinance Analysis	<p>Prepare a refinance analysis that:</p> <ul style="list-style-type: none">• incorporates the terms of both the Mortgage Loan and the Preferred Equity;• demonstrates that the Borrower will<ul style="list-style-type: none">- maintain a positive equity position in the Property throughout the term of the Mortgage Loan, or- have some other incentive (e.g., continuing cash flow) to remain committed to the Property and its successful operation; and• concludes that there will be sufficient cash flow, NCF growth, and residual value to pay off the Mortgage Loan and the Preferred Equity (if applicable) at maturity.
Replacement Guarantor	<p>Identify an acceptable replacement guarantor that complies with the Guide for Key Principals for any Mortgage Loan with</p> <ul style="list-style-type: none">• Hard Preferred Equity, and• Soft Preferred Equity if modifications to the transfer provisions of the Loan Documents are requested for the benefit of the Soft Preferred Equity holder.
Loan Documents	<p>Use the Loan Documents for Preferred Equity per the Loan Documentation Requirements (Form 6000) for any Mortgage Loan with</p> <ul style="list-style-type: none">• Hard Preferred Equity, and• Soft Preferred Equity if modifications to the transfer provisions of the Loan Documents are requested for the benefit of the Soft Preferred Equity holder.

1602.03 Hard Preferred Equity

1602.03A Submission



Operating Procedures

You must submit the following in DUS Gateway:



- a sources and uses of funds reflecting the investment of the Hard Preferred Equity holder;
- Exhibit B to the Multifamily Underwriting Certificate (Borrower) (Form 6460.Borrower);
- a complete organizational chart of the Borrower, including upper tier entities or other owners, that shows the respective ownership percentages of Persons holding any
 - direct or indirect control of the management and operations of the Borrower;
 - ownership of a direct or indirect interest of 25% or more in the Borrower; and
 - ownership of any other direct or indirect interest in the Borrower that constitutes Hard Preferred Equity; and
- copies of the organizational and other documents that govern the
 - Hard Preferred Equity; and
 - Hard Preferred Equity holder, including any
 - term sheets,
 - private placement memoranda,
 - operating agreements,
 - pledge agreements,
 - guaranties, or
 - similar arrangements.

1602.03B Outside Counsel and Due Diligence Fees

Operating Procedures

The Borrower must pay the legal fees if Fannie Mae engages outside counsel.

These fees are non-refundable, and you must pay the counsel retainer when you submit the underwriting.

Guidance

You may charge the Borrower your own legal and due diligence fees.



GLOSSARY

■ Debt Service Coverage Ratio

On an annual basis or any specified period, the ratio of Net Cash Flow to the total of: principal, interest, and required Mezzanine Financing or Hard Pay Preferred Equity payments.

Synonyms

DSCR

■ Loan-to-Value Ratio

Ratio of the actual aggregate UPB of the Mortgage Loan, plus any Pre-Existing Mortgage Loans, plus any Hard Pay Preferred Equity, plus any Mezzanine Financing, to the value of the Property, expressed as a percentage.

Synonyms

LTV

LTV Ratio

■ Preferred Equity

A direct or indirect equity investment in an entity providing that investor with unequal rights to receive dividends, distributions, payments, or returns relative to other equity owners.

■ Schedule of Real Estate Owned

■ SREO

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

Synonyms

SREO

Schedule of Real Estate Owned