

# Multifamily Selling and Servicing Guide

Effective as of April 30, 2025

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# **Summary of Changes**

#### **HIGHLIGHTS**

**Effective for all Credit Facilities as of April 30, 2025**, updated Credit Facility and Bulk Delivery information:

- in your Lender Contract;
- · throughout the Guide; and
- in multiple forms.

#### **Primary Changes**

#### Updated:

- Schedule 1 of your Lender Contract to designate whether you are approved to originate a new Credit Facility;
- Part III, Chapter 17: Structured Transactions, to modify the Credit Facility transaction size;
- Part V, Chapter 4, Asset Management: Loan Document Administration, Section 416: Credit Facilities and Bulk Deliveries, to:
  - clarify which requests are delegated;
  - outline requirements only applicable to Credit Facilities;
  - consolidate requirements for Credit Facility future advances and conversions;
  - clarify existing requirements for Bulk Delivery
    - additions.
    - substitutions.
    - releases, and
    - Supplemental Mortgage Loans;
  - add third-party Capitalization Rate Derivation (Cap Study) requirements for Credit Facility revaluations:
  - add re-underwriting assessment requirements; and
  - outline requirements for
    - Credit Facility true-up through a Springing Debt Service Reserve, and



- managing Debt Service Reserve Accounts;
- Part V, Chapter 5: Surveillance, Section 502.02: Quarterly Financial Analysis of Operations, to remove Bulk Delivery monitoring requirements;
- the Glossary to add multiple new terms; and
- the following Forms to include aligning edits:
  - Multifamily Asset Management Delegated Transaction: Property Management Changes (Form 4636.PM);
  - Structured Facilities Monitoring Narrative (Form 4801); and
  - Structured Facilities Monitoring Spreadsheet (Form 4802).

#### **Questions**

Please contact MF\_Structured\_Transactions@fanniemae.com with any questions.



# Chapter 17

# **Structured Transactions**

#### Section 1701

#### Description

# ☑ Requirements

Structured Transactions consist of 1 or more Mortgage Loans governed by a master agreement, regardless of individual loan size or crosscollateralization.

There are 2 types of Structured Transactions: Credit Facilities and Bulk Deliveries. The terms for each Structured Transaction vary and are negotiated based on the specific Properties and Sponsor needs.

#### Section 1702

#### **Credit Facilities**

## Requirements

A Credit Facility is a Structured Transaction that

- is governed by a Master Credit Facility Agreement, and
- includes cross-collateralized and cross-defaulted Mortgage Loans and Properties.

# Guidance

A Credit Facility may also include:

- variable rate debt, fixed rate debt, or a combination of both;
- varied loan maturities and repayment terms;
- the ability to increase borrowing based on
  - increases in the aggregate DSCR, and
  - decreases in the aggregate LTV of the Properties;
- the ability to increase the amount of the Credit Facility by delivering additional Properties as collateral; or
- collateral substitutions and releases.

# Requirements

#### **Product Description**



Minimum-Transaction Size	\$100 million.  Credit Facilities must:  • have at least \$100 million UPB at the initial Mortgage Loan closing; and  • not exceed any applicable Maximum  Facility Limitations per the Master Credit Facility Agreement.
Borrowers	Must have: • common Control per the Master Credit Facility Agreement; and • identical ownership, although ownership percentage may vary.
Fannie Mae Due Diligence Fee	Equals \$1,500 for each Property:  • in the initial Credit Facility, funding; and  • added or substituted post-closing.

# **>** Operating Procedures

Credit Facilities require intensive Fannie Mae involvement, including the assignment of an in-house legal lead who will direct outside counsel services.

Fannie Mae will engage outside counsel at your expense to prepare all related documentation.

You may require the Borrower to

- pay these legal fees and expenses, and
- fund a deposit for their payment.

#### Section 1703 Bulk Deliveries

# ▼ Requirements

A Bulk Delivery is a Structured Transaction that:

- consists of multiple single-asset MBS Mortgage Loans with the same Sponsor that are governed by a Bulk Delivery Agreement; and
- includes the ability to
  - add Mortgage Loans in the future, or



• substitute a new Property for an existing Property as collateral.

Product Description	
Minimum Initial Transaction Size	At least:  • \$100 million; or • \$75 million combined with at least 3  Properties; or • \$55 million combined with at least 6  Properties.
Loss Sharing	Must be the same for all Mortgage Loans, regardless of when they are added to the Bulk Delivery.
Loan Structure	<ul><li>Each Property collateralizes 1 Mortgage Loan.</li><li>All Mortgage Loans are uncrossed.</li></ul>
Borrowers	Must be Sponsor Affiliates per the Bulk Delivery Agreement.
Fannie Mae Due Diligence Fee	\$1,500 for each Property  • in the initial Bulk Delivery, and • added or substituted after the Bulk Delivery Agreement effective date.
Additions	Properties may be added for up to 3 years after the Bulk Delivery Agreement effective date.
Substitutions	<ul> <li>Each Mortgage Loan may only have 1</li> <li>Property substitution.</li> <li>Properties must be: <ul> <li>simultaneously released and added; and</li> <li>substituted only after the first Loan Year</li> </ul> </li> <li>until 1 year before the Maturity Date.</li> </ul>



	Product Description	
Substitution Test	A Property may be substituted if the substitute Property's:	
	DSCR is at least the greater of the released Property's     - original DSCR, or     - DSCR immediately before the release; and     LTV does not exceed the lesser of the released Property's     - original LTV, or     - LTV immediately before the release.	
Substitution Fee	On or before the release date, you must collect a fee	
	<ul> <li>that will be equally shared between you and Fannie Mae, and</li> <li>equals the greater of <ul> <li>50 bps multiplied by the Mortgage Loan's current UPB, or</li> <li>\$50,000.</li> </ul> </li> </ul>	
Releases	Occur when the Mortgage Loan is  • fully repaid, or	
	assumed.	
MBS Disclosure	All Mortgage Loans must have Additional Disclosure.	
Supplemental Mortgage Loans	Mortgage Loans are eligible for Supplemental Mortgage Loans.	
Assumptions	<ul> <li>A Bulk Delivery may be assumed in its entirety.</li> <li>Each Mortgage Loan may only be assumed after it is released from the Bulk Delivery.</li> </ul>	



You must use



- the Bulk Delivery Agreement, and
- Fannie Mae's Loan Documents.

Fannie Mae may engage outside counsel at your expense to prepare the Bulk Delivery Agreement.

You may require the Borrower to

- pay these legal fees, and
- fund a deposit for their payment.



# **Chapter 4** Asset Management: Loan Document Administration

# **Section 401** Servicing Requirements

**401.01** General

This Chapter covers asset management of performing Mortgage Loans. This Chapter does not apply to Non-Performing Mortgage Loans, unless otherwise stated. For asset management of Non-Performing Mortgage Loans, the Servicer must comply with:

- Part VI, Chapter 1: Watchlist Management; and
- either:
  - Part VI, Chapter 3: Non-Performing Primary Risk Mortgage Loans; or
  - Part VI, Chapter 5: Non-Performing Secondary Risk Mortgage Loans.

This Chapter covers the Servicer's:

- administration of Loan Documents, including Collateral Agreements;
- review of a delegated and non-delegated Borrower request;
- approval of a delegated Borrower request;
- management of insurance matters;
- review of Transfer/Assumption requests; and
- administration of specialty product types.

The Servicer must submit all Borrower requests, along with any additional information and required documents, through the MAMP. If submitting through the MAMP is not feasible, overnight mail must be used and sent to:

Fannie Mae Attention: (Drawer AM, Structured AM, Seniors AM, or Assumption/Transfer) Mailstop 8V-21 1100 15th Street, NW Washington, DC 20005.

Fannie Mae email addresses and contact information for



notices required in this Chapter are located in the Glossary.

#### **401.02** Monitoring Compliance with Loan Documents

For each Mortgage Loan, the Servicer must monitor the Borrower's compliance with the terms and conditions of the Loan Documents, and facilitate compliance or take appropriate actions to address any instance of noncompliance. All Loan Documents and all other documents required to be retained by the Servicer must be maintained in accordance with the Program Rules.

In the event of any conflict between or among the requirements of the Guide, the Disclosure Documents, the Lender Contract, and the Loan Documents, the governing priority shall be, in order:

- Loan Documents;
- **■** Disclosure Documents;
- Lender Contract; and
- Guide.

#### Section 402

Delegation of Decision-Making Authority; Retention of Outside Legal Counsel

#### **402.01** Delegation of Decision-Making Authority

Fannie Mae delegates significant decision-making authority and responsibility to the Servicer to the extent specified in the Multifamily Asset Management Delegated Transaction Forms (Form 4636 series) (each, the "Delegated Transaction Form"), covering the following matters:

- Transfers/Assumptions (Form 4636.TA);
- Commercial Leases (Form 4636.CL);
- Condemnations (Form 4636.C);
- Condominium/Cooperative Property Conversions (Form 4636.CC);
- Easements (Form 4636.E);
- Oil, Gas, or Mineral Rights Leases (Form 4636.OGL);
- Partial Releases of Collateral (Form 4636.PR);



- Property Management Changes (Form 4636.PM); and
- Use Conversions (Form 4636.UC).

The Servicer must follow the instructions in the Delegated Transaction Form, which will specify which matters are delegated and which are non-delegated. All delegated and non-delegated requests must be submitted through the MAMP, with the Delegated Transaction Form and the required supporting documents.

A transaction memo must be submitted for any unusual matters not covered in the Guide, or matters that could materially affect Fannie Mae's security interests, investment interests, or the interests of Investors in Securitized Mortgage Loans. Decision-making authority is more limited for Credit Facilities, Bulk Deliveries, and certain Seniors Housing Loan matters. Neither the Servicer nor Fannie Mae has the authority to waive any local, state, or federal law or regulation.

#### **402.02** Retention of Outside Legal Counsel

Fannie Mae often retains outside legal counsel to review nondelegated matters or other matters that require Fannie Mae's legal review. In such instance, the Servicer must obtain the Borrower's written agreement to pay the reasonable legal fees and expenses of Fannie Mae's counsel before any legal work may commence.

If Fannie Mae outside counsel review is required or requested, the Borrower must pay the applicable legal fee, which will either be a fixed fee or an estimated fee depending on the type of request. For an estimated fee request, the Servicer must notify the Borrower that the actual legal fee may be higher or lower than the estimate, depending on the ultimate scope of the request, and the time needed to resolve the issue.

#### Fannie Mae will:

- apprise the Servicer of any likely increases in the estimated review fee:
- provide the Servicer the amount of the fee for any fixed fee request; and
- provide the Servicer a summary invoice directly from Fannie Mae's outside counsel.

Upon receipt of the invoice, the Servicer must arrange for payment of Fannie Mae's legal fees. The legal fee must be collected from the Borrower before engaging Fannie Mae outside counsel.



#### **Section 403**

# Execution of Documents by Servicer – Limited Power of Attorney

Fannie Mae may provide the Servicer with a Limited Power of Attorney conferring the right to execute certain documents as attorneyin-fact on behalf of Fannie Mae. If granted, the actions authorized in the Limited Power of Attorney will be specifically limited, and allow the Servicer to execute only those documents listed in the Limited Power of Attorney. To exercise the Limited Power of Attorney the Servicer must execute documents as "[Name of Servicer], as Attorney-in-Fact for Fannie Mae". The Servicer's designation as attorney-in-fact will be subject to review and renewal, and the power granted under the Limited Power of Attorney may be revoked by Fannie Mae at any time. Requests for new and replacement Limited Power of Attorney should be submitted through the MAMP or as required by Part V, Chapter 4: Asset Management: Loan Document Administration, Section 401.01: General. As each Limited Power of Attorney expires on a specified date according to its terms, the Servicer must monitor the expiration date and request a new Limited Power of Attorney at least 30 days prior to the expiration date.

#### Section 404

Execution of Documents by Fannie Mae

#### **404.01** Submission of Documents to Fannie Mae

All documents requiring execution by Fannie Mae (clearly identified by Fannie Mae Loan Number) must be sent to Multifamily Asset Management. Fannie Mae will execute the documents without prior review if the Servicer provides the certifications described in this Section.

The Servicer must include directions for returning the documents, including:

- contact name:
- overnight delivery mailing address;
- phone number; and
- email address.

#### **404.02** Servicer Certification When Fannie Mae Approval Is Not Required

For any document submitted to Fannie Mae for execution when the servicing decision has been delegated to the Servicer, the



Servicer must provide written certification to Fannie Mae that:

- the Servicer has reviewed the proposed transaction, and approval by the Servicer is in compliance with the Guide, the Loan Documents, any Disclosure Documents, and the Lender Contract;
- the Servicer has approved the proposed transaction;
- no approval or waiver is required from Fannie Mae;
- Servicer's legal counsel has reviewed and approved all relevant documents associated with the transaction, and determined that those documents are sufficient to fully effectuate the transaction; and
- any material changes to Fannie Mae form Loan Documents have been approved by Fannie Mae.

#### **404.03** Servicer Certification When Fannie Mae Approval Is Required

For any document submitted to Fannie Mae for execution when the servicing decision has not been delegated to the Servicer, the Servicer must provide written certification to Fannie Mae that:

- the Servicer has reviewed the proposed transaction, and approval by the Servicer is not delegated under the Guide;
- the Servicer recommends approval by Fannie Mae of the proposed transaction;
- any required waivers have been submitted by the Servicer;
- Servicer's legal counsel has reviewed and approved all relevant documents associated with the transaction, and determined that those documents are sufficient to fully effectuate the transaction; and
- any material changes to Fannie Mae form Loan Documents have been approved by Fannie Mae.

#### **Section 405** Fees Due to Fannie Mae

Certain fees may be due to Fannie Mae in connection with a Borrower servicing request. The specified fees are for typical requests; however, higher fees may be required for complicated or non-standard requests, or for other matters not specified in this Chapter. No later than 10 Business Days following receipt of any fee by the Servicer, the



Servicer must remit to Fannie Mae, by wire transfer of immediately available funds, Fannie Mae's portion of the fee. The Servicer must submit the wire transfer confirmation number, wire date, and wire amount through the MAMP immediately following each funds transfer, as follows:

ABA Number: 021 039 500

Telegraphic Abbreviation: FNMA/NYC

Account Number: 169220242

Note: Type of fee (e.g., Assumption/Transfer), Fannie Mae Loan Number and Property Name Attention: Trans code 507 - GL 747669921.

#### Section 406

#### Follow-Up Actions by the Servicer

The Servicer must take all applicable actions required to fully effectuate the transaction, including:

- amending the recorded Security Instrument or filed Uniform Commercial Code (UCC) financing statements;
- updating the Property survey;
- obtaining an endorsement to the mortgagee's title insurance policy showing no impairment of Fannie Mae's Lien position, and dating down title to reflect any recorded amendment to the Security Instrument;
- recording all applicable documents, and sending the required documents through the MAMP;
- sending an executed original copy of any new or amended Loan Document to Multifamily Certification and Custody within 15 Business Days;
- following the requirements of Part V, Chapter 3: Custodial Accounts, Section 301: Generally if changes are required to any existing Collateral Agreement Custodial Account, or if any new Collateral Agreement Custodial Account must be established in connection with the transaction:
- retaining copies of all documents, correspondence, and any internal notes or analysis relating to the transaction in the Servicing File; and
- taking any other actions the Servicer or its legal counsel determines are necessary.

#### Section 407

## **Subordinate Financing**



#### **407.01** Non-Fannie Mae Subordinate Financing

A Subordinate Loan is generally not permitted unless it complies with Fannie Mae's requirements. Approval of any Subordinate Loan is not delegated to the Servicer and must be approved in advance by Fannie Mae. Additionally:

- with respect to any Subordinate Loan, the Servicer must abide by the terms and conditions of the Loan Documents, the Guide, and any Disclosure Documents, provided that the Loan Documents will control in the case of any conflict;
- unless the Loan Documents explicitly allow a Subordinate Loan, the Servicer must not permit the Borrower, without prior Fannie Mae approval, to incur the Subordinate Loan or allow a Lien securing the Subordinate Loan to be placed against the Property;
- if the Loan Documents explicitly allow a Subordinate Loan without the approval of the Lender, the consent of the Servicer or Fannie Mae is not required; however, notice of the Subordinate Loan and a copy of any documents must be submitted through the MAMP;
- the Borrower and the subordinate lender must enter into and record the appropriate Subordination Agreement (Form 6414 or Form 6456 for the 6000 series Loan Documents; Form 4503 or Form 4507 for the 4000 Series Loan Documents); and
- the proceeds of the Subordinate Loan must benefit the Property (i.e., cash-out financing is not permitted).

The Servicer must immediately notify Multifamily Asset Management in writing upon learning of any unauthorized additional unsecured debt or indebtedness secured by a Lien on the Property or of any pledge of ownership interests that is not permitted by the Loan Documents, and send the Borrower a Reservation of Rights Letter (Form 4804) with a copy submitted through the MAMP. Fannie Mae will determine whether to approve the Subordinate Loan, or exercise its remedies.

#### **407.02** Prerequisite for Subordinate Financing

Part III, Chapter 14: Supplemental Mortgage Loans, contains the requirements for Supplemental Mortgage Loans, and Part III, Chapter 7: Multifamily Affordable Housing Properties contains additional



requirements for subordinate financing with respect to a Multifamily Affordable Housing Property. The Servicer must ensure adherence to all applicable requirements.

#### **407.03** Fees for Subordinate Financing

The Borrower must pay the Servicer a \$2,500 review fee. The Servicer may increase or decrease its fee at its discretion. No Fannie Mae review fees are due. The Servicer may also seek reimbursement from the Borrower for all reasonable out-of-pocket costs, including reasonable legal fees incurred by Servicer's counsel.

If Fannie Mae outside counsel is engaged, the Borrower must pay its fee, estimated at \$2,500 for Subordinate Financing requests. The actual legal fee may be higher or lower, depending on the ultimate scope of the request and the time necessary to resolve. The Servicer will receive a summary invoice directly from Fannie Mae outside counsel and must arrange for payment. The Servicer will be apprised of any likely increases in the estimated review fee. The estimated legal fee must be collected from the Borrower before engaging Fannie Mae outside counsel.

#### **407.04** Submitting the Request for Subordinate Financing

Any Borrower request for approval of a Subordinate Loan must be reviewed by the Servicer. If acceptable, the request must be submitted for approval through the MAMP in accordance with the following:

- the Servicer must submit the request to Fannie Mae at least 30 days before the projected closing date of the Subordinate Loan; and
- the submission must contain:
  - an Appraisal (obtained at the Borrower's cost), dated no earlier than 90 days prior to the date of the Borrower request for approval of the Subordinate Loan, that complies with Part II, Chapter 2: Valuation and Income, Section 202: Appraisal and Valuation;
  - Servicer's underwriting spreadsheet showing the Subordinate Loan's effect on the Property's income, expenses, NCF, DSCR, and LTV;
  - a copy of the final, unsigned loan documents evidencing the Subordinate Loan, with the loan amount, interest rate, payment schedules, and all other



transaction related information completed;

- the MBA Standard Inspection Form documenting a physical inspection of the Property, performed at Borrower's expense, occurring no earlier than 90 days before the date of the Borrower request for the Subordinate Loan; provided that, if the Servicer's inspection of the Property reveals that the Property is not being properly maintained, the Borrower request will not be approved by Fannie Mae unless:
  - a Replacement Reserve is sufficiently funded; and
  - the Borrower makes any Immediate Repairs identified by the Servicer prior to the closing date of the Subordinate Loan; and
- a title policy endorsement for the Property showing no unauthorized Liens or encumbrances of any nature against the Property.

For a Cooperative Property, the Subordinate Loan is unacceptable if the potential increase in the Cooperative Maintenance Fee necessary to cover P&I on the Subordinate Loan exceeds 10% of the current Cooperative Maintenance Fee.

#### **407.05** Fannie Mae Approval and Execution

Fannie Mae will provide the Servicer with a written decision regarding the Borrower request, after which the Servicer must notify the Borrower in writing and retain the notice in the Servicing File.

#### **407.06** Subsequent Servicer Actions

#### The Servicer must:

- not permit any changes to the form Subordination Agreement (Form 6414 or Form 6456 for the 6000 series Loan Documents; Form 4503 or Form 4507 for the 4000 series Loan Documents) without the prior written consent of Fannie Mae:
- obtain a satisfactory title policy endorsement effective as of the date of recordation of the subordinate security instrument that:
  - insures the Lien of the Security Instrument as senior to



the Lien of the subordinate security instrument; and

- reflects the recordation of the Subordination Agreement;
- submit a copy of the recorded Subordination Agreement through the MAMP; and
- send the original executed copy of the recorded Subordination Agreement and the title policy endorsement to Multifamily Certification and Custody within 15 Business Days, and retain copies of each in the Servicing File.

## **Section 408** Administration of Collateral Agreements

#### **408.01** General Administrative Requirements

#### **408.01A** Administration of Funds

#### The Servicer must:

- administer and manage funds or collateral under all Collateral Agreements; and
- ensure that any disbursements of funds, or other collateral releases or reductions, are:
  - approved only for valid reasons;
  - appropriately documented; and
  - consistent with the provisions of the Collateral Agreement and this Section.

#### **408.01B** Funds to be Held in a Custodial Account

The Servicer must deposit funds held under a Collateral Agreement in a Custodial Account that meets the requirements of Part V, Chapter 3: Custodial Accounts.

#### **408.01C** Use of Funds

Funds must be used only for the purposes stated in the Collateral Agreement, and must not supplement a partial P&I payment or cover any other Borrower obligation unrelated to the primary purposes of the Collateral Agreement.



#### **408.01D** Funds as Additional Security for Mortgage Loan

All funds or other collateral held under a Collateral Agreement constitute additional security for the Borrower's obligations under the Note and the other Loan Documents. In the event of a default under the Loan Documents, Fannie Mae reserves the right to apply (or direct the Servicer to apply) the funds or other collateral held under any Collateral Agreement in any manner allowed under the terms of such Collateral Agreement. Following a default, unless instructed by Fannie Mae, the Servicer must not:

- release any funds or other collateral held under a Collateral Agreement;
- apply any funds or collateral to the repayment of the Mortgage Loan; or
- reimburse itself from such funds or collateral for any expenses or losses incurred by the Servicer.

#### **408.01E** Servicer's Fees and Costs

If the Collateral Agreement contemplates the payment of fees or costs by the Borrower, the Servicer may collect and retain such fees or costs for its own account, adhering to any specific billing provisions of the Collateral Agreement. Any fees or costs retained by the Servicer must be reasonable in relation to the nature and scope of the services provided by or on behalf of the Servicer. The Servicer must not use any of the funds or other collateral held under the Collateral Agreement to cover such fees or costs. However, the Servicer may deduct such fees or costs from any disbursement of funds to the Borrower, provided such disbursements, fees, and costs are permitted under the Collateral Agreement, or if the Borrower otherwise agrees in writing.

#### **408.01F** Waiver or Modification of Terms of Collateral Agreement

Except as noted in this Chapter, the Servicer must not waive or modify the terms of any Collateral Agreement.

#### **408.02** Achievement Agreement or Other Agreement for Additional Collateral

#### **408.02A** General

The provisions of this Section govern Achievement Agreements and all Collateral Agreements, other than:

Multifamily Loan Agreements, including the



Completion/Repair Schedule and Replacement Reserve Schedule;

- Security Instruments;
- Replacement Reserve Agreements; and
- Completion/Repair Agreements.

The Servicer must maintain an effective system for monitoring the expiration date of any Achievement Agreement or other Collateral Agreement, and ensure that all actions required to be taken pursuant to any such agreement have been timely performed and, if not timely performed, immediately notify Multifamily Asset Management.

#### **408.02B** Releases or Reductions in Collateral

Any request for a release or reduction of collateral must be processed in accordance with this Section, unless these instructions conflict with the terms and conditions of the Achievement Agreement or other Collateral Agreement.

#### 1. General

If the Borrower has not satisfied the requirements for a release or reduction of collateral contained in the Achievement Agreement or other Collateral Agreement, the Servicer must not approve the Borrower request, and may decline the Borrower request without notice to Fannie Mae. If the Servicer determines that the Borrower has satisfied the requirements of the Achievement Agreement or other Collateral Agreement, the Servicer must recommend the release or reduction of collateral through the MAMP, accompanied by the supporting documentation listed below. Upon receipt and review of all pertinent information, Fannie Mae will approve or deny the request and notify the Servicer of its decision.

#### 2. Supporting Documentation and Analysis

The following documentation must be submitted through the MAMP, and maintained in the Servicing File, in connection with each request for a release or reduction of collateral

# (a) Income and Expense Statements; Current Rent Roll

Property income and expense statements and a current rent roll must be obtained from, and certified by, the Borrower. The statements must cover the applicable period required by the Achievement Agreement or other



Collateral Agreement. Based on the Loan Documents, Parts I - III, the certified income and expense statements, and the current rent roll, the Servicer must develop a Net Cash Flow estimate to determine whether the release or reduction provisions of the applicable Achievement Agreement or other Collateral Agreement are satisfied. The income, vacancy, collection loss, and concession information should support the Effective Gross Income that the Servicer is relying on in assessing whether a release or reduction is warranted.

In deriving its estimate of Effective Gross Income, the Servicer must adjust for:

- income that was not allowed or recognized in the original underwriting;
- the effect of a partial year's performance when the shorter period reflects the short-term, positive impact from seasonal variations that do not reflect the Property's year-round performance; and
- non-monetary concessions, requiring the Servicer to deduct the pro-rata value of the concession from the monthly rent for the applicable unit.

The Servicer must ensure that all appropriate types of expenses, including underwritten Replacement Reserve deposits, are included, and that any inappropriate expenses (e.g., capital improvement costs, repair costs covered by funds set aside for Completion/Repairs, partnership costs, etc.) are excluded. To avoid unwarranted releases or reductions of collateral, the expense figures must reflect stabilized operating conditions, and must not be understated due to efficiencies or savings that could not be replicated by a different owner or manager, or that would not be recognized for underwriting purposes.

The Servicer must perform a line-by-line expense analysis, including a comparison of the original underwriting estimates with the actual expenses shown on the Borrower's income and expense statements. The Servicer must use the greater of the underwritten or the actual expense figure shown for each item on the



#### Borrower's statement.

#### (b) Servicer's Analysis

The Servicer must provide an analysis and recommendation regarding the release or reduction of collateral, including any calculations required under the terms of the applicable Achievement Agreement or other Collateral Agreement.

#### (c) Correspondence

The Servicer must provide any correspondence with the Borrower that pertains to the release or reduction request.

#### 3. Property Inspection

Before approving any request for a release or reduction of collateral, the Servicer must perform a physical inspection of the Property to verify that:

- no deferred maintenance exists:
- necessary capital improvements have been made; and
- the general management and operations are acceptable and characteristic of a stabilized project.

The Servicer's inspection must occur no more than 90 days prior to the date of the submission to Fannie Mae of the release or reduction request. The Servicer must document the results of its inspection by completing the MBA Standard Inspection Form.

## **408.02C** Draws on Letters of Credit or Application of Other Collateral

#### 1. Draws Triggered by Adverse Events

The Servicer must promptly notify Multifamily Asset
Management when any of the following events occur, which could
result in a draw on a Letter of Credit issued for an Achievement
Agreement or other Collateral Agreement:

- a default under the Loan Documents, including the Achievement Agreement or other Collateral Agreement;
- the failure to renew or replace an expiring Letter of Credit at least 30 days prior to its expiration date, or other deadline specified in the Achievement



#### Agreement or other Collateral Agreement; or

the failure to replace a Letter of Credit by the replacement deadline when the Issuer is no longer acceptably rated.

The Servicer's notice to Fannie Mae must include a recommended course of action, and be accompanied by a copy of the executed Achievement Agreement or other Collateral Agreement.

# 2. Draw Resulting from Noncompliance with Issuer Rating Requirements or Expiration of Letter of Credit

If a draw on the Letter of Credit occurs due to noncompliance with the rating requirements for the Issuer or because of an imminent expiration of the Letter of Credit, Fannie Mae will hold the Letter of Credit proceeds in its designated account until the earliest of the following:

- the Borrower presents a replacement Letter of Credit and Fannie Mae agrees, in its sole discretion, to accept the Letter of Credit; (NOTE: Any agreement by Fannie Mae to accept a replacement Letter of Credit will be conditioned upon the Borrower's payment of all administrative and legal costs incurred by the Servicer and Fannie Mae in connection with the replacement of the Letter of Credit.)
- the release or reduction provisions of the applicable Achievement Agreement or other Collateral Agreement are satisfied; or
- the Borrower pays all amounts due and payable under the Loan Documents, including any required Prepayment Premium, and Fannie Mae releases the Lien of the Security Instrument.

#### 3. Draws Occasioned by Borrower Request

If the Servicer receives a request from the Borrower to draw on the Letter of Credit and have the proceeds applied as a partial prepayment against the UPB, and the Loan Documents allow partial prepayments, the Servicer must immediately forward the request, along with an analysis and recommendation, including an estimate of the applicable Prepayment Premium, to Fannie Mae. If the Loan Documents do not allow partial prepayments, the



Servicer must deny the Borrower request.

Fannie Mae will assess the Borrower request and determine if the proposed use of the Letter of Credit proceeds or other collateral would be in the best interest of Fannie Mae and/or the Investor in any Securitized Mortgage Loan. Any decision to apply Letter of Credit proceeds or apply other collateral to a partial prepayment will be made by Fannie Mae in its sole discretion. Fannie Mae will notify the Servicer of its determination and will provide appropriate follow-up instructions.

## 4. No Interest on Proceeds Held by Fannie Mae

Fannie Mae will not pay interest on the cash proceeds it holds resulting from a draw on a Letter of Credit.

**408.02D** Releasing Additional Escrows for Principal and Interest, Taxes and Insurance, and Replacement Reserves

Notwithstanding anything contained in this Chapter, if no Event of Default has occurred and is continuing under any of the Loan Documents (including Forbearance), the Servicer is delegated the authority to waive any Loan Document requirement prohibiting the Servicer from immediately approving a partial or final disbursement request of Additional Escrows for P&I, T&I, and Replacement Reserves required by:

- Form 6268 Modifications to Multifamily Loan and Security Agreement (Additional Reserve Escrows);
- Form 6640 Amendment to Multifamily Loan and Security Agreement (Additional P&I Escrow Agreement); or
- Form 6641 Additional P&I Escrow Agreement (4000 series Loan Documents).

The Servicer is delegated the authority to:

- determine whether the waiver requires a Loan Document amendment; and
- document any amendment in any form the Servicer determines to be legally enforceable.

Servicers must document all disbursement requests, including any supporting documentation and analysis, in the Servicing File.

#### **408.03** Completion/Repairs



#### **408.03A** General

The Loan Documents for administering Completion/Repairs

are:

- for Mortgage Loans documented with the 6000 series Loan Documents, the Multifamily Loan Agreement, plus the:
  - Completion/Repair Schedule;
  - Multifamily Loan Agreement and Modifications to Multifamily Loan and Security Agreement (Rehabilitation Reserve - Moderate Rehabilitation/Substantial Rehabilitation); or
  - another approved Modifications to Multifamily Loan and Security Agreement; and
- For Mortgage Loans documented with the 4000 series Loan Documents, the Completion/Repair Agreement.

The Servicer must administer the Loan Documents to ensure the timely implementation of all Completion/Repairs. Once the Completion/Repairs are completed and comply with the Guide, the Servicer must enter the final completion dates and close out the work items for the Mortgage Loan in the Completion/Repair module in the MAMP. Additional information may be required for any Mortgage Loan assigned to Loss Mitigation. If the Mortgage Loan does not have work items in the MAMP, no further action in the MAMP is required.

#### **408.03B** Extensions for Completion/Repairs

The Servicer is delegated the authority to extend the time limits for making Completion/Repairs if:

- the Completion/Repairs subject to the extension request do not involve life safety issues; and
- the Mortgage Loan does not have a Fannie Mae risk rating of Substandard or Doubtful.

Notwithstanding the above, the Servicer is delegated the authority to grant a one-time extension of 30 days for a life safety issue if the Borrower is diligently pursuing completion of the related Completion/Repair.

The duration of any permitted non-life safety extension may not exceed:



- 1 year past the original completion date specified in the Loan Documents for that Completion/Repair, for a Mortgage Loan without loss sharing; and
- 2 years past the original completion date specified in the Loan Documents for that Completion/Repair, for any Mortgage Loan with loss sharing.

The Servicer must submit a Non-Monetary Default Borrower Request in the MAMP if the required Completion/Repairs are not completed with this timeframe.

The Servicer is delegated the authority to grant a one-time extension of up to 90 days past the original completion date for any Completion/Repairs that are Efficiency Measures which the Borrower agreed to implement to qualify as a Green Rewards Mortgage Loan. The Servicer is not delegated the authority to extend the time limit beyond 90 days.

The Servicer is delegated the authority to:

- determine whether the extension requires an amendment to the Loan Documents; and
- document a required amendment in any form the Servicer determines to be legally enforceable.

#### **408.03C** Completion/Repair Loan Document Amendments

Servicers are delegated the authority to move required Completion/Repairs from the Completion/Repair Schedule to the Replacement Reserve Schedule, or from the Completion/Repair Agreement to the Replacement Reserve Agreement, and the associated deposit from the Completion/Repair Escrow into the Replacement Reserve, provided:

- the Completion/Repair does not involve life safety issues;
- delaying the Completion/Repair will not materially negatively impact the Property; and
- the total amount of Completion/Repairs being transferred does not exceed the lesser of (i) 25% of the original Completion/Repair Escrow, or (ii) \$75,000.

Notwithstanding the above, the Servicer is not delegated the authority to move required Completion/Repairs to the Replacement Reserve Schedule for any Efficiency Measures that the Borrower



agreed to implement in order to qualify as a Green Rewards Mortgage Loan.

#### The Servicer must:

- send the executed Loan Document amendment to Multifamily Certification and Custody within 15 Business Days;
- submit a copy of the Loan Document amendment through the MAMP for any Mortgage Loan with a Completion/Repair work item in the MAMP; and
- retain a copy in its Servicing File.

#### **408.03D** Servicer's Administrative Requirements

For all Completion/Repairs, the Servicer must:

- retain a copy of the executed Multifamily Loan Agreement and Completion/Repair Schedule or Completion/Repair Agreement in its Servicing File;
- hold all Completion/Repair Escrow funds in an account that meets the Custodial Account requirements of Part V, Chapter 3: Custodial Accounts;
- ensure that all necessary permits are obtained, and that all required work is satisfactorily completed in a good and workmanlike manner by the completion dates stipulated in the Loan Documents;
- for a Green Rewards Mortgage Loan, ensure all Efficiency Measures are completed in a timely manner and no later than:
  - 12 months after the Mortgage Loan Origination Date; or
  - any shorter time period per Part II, Chapter 4: Lease Audits, Inspections, and Reserves, Section 404: Property Condition Assessment (PCA) for capital improvements identified as Immediate Repairs by the PCA;
- process Borrower requisitions for funds in accordance with the terms and conditions of the Loan Documents;
- perform required inspections of completed work and, if appropriate, work in progress and, if necessary, arrange



inspections by qualified professionals;

- ensure that the Completion/Repair work does not result in any mechanics' Liens, materialmen's Liens, or other Liens that have not been acceptably bonded over;
- promptly submit a Non-Monetary Default Borrower Request in the MAMP for any Completion/Repair Loan Document default;
- take appropriate steps to remedy or address any default under the Loan Documents for Completion/Repairs; and
- perform all other administrative duties required by the Loan Documents for Completion/Repairs.

#### **408.03**E Processing Borrower Requisitions

#### 1. General

Completion/Repair Escrow funds are available to reimburse the Borrower for costs incurred for Completion/Repairs that are specifically identified in the Loan Documents. The Servicer may authorize the release of funds to cover the costs of other reasonable and necessary repairs, replacements, or improvements that are not specified in the Loan Documents only if the Loan Documents permit the disbursements, and all conditions are fully satisfied.

#### 2. Required Documentation for Disbursement

To obtain reimbursement, the Borrower must submit a written requisition specifying the Completion/Repairs for which reimbursement is being sought, including:

- the specific Completion/Repairs completed;
- the quantity and price of all materials (grouped by type or category) or specific replacement items (e.g., appliances) purchased in connection with the Completion/Repairs; and
- the cost of all contracted labor or other services involved in completing the Completion/Repairs.

The Borrower requisition for the specified Completion/Repairs for which reimbursement is being sought must be accompanied by:

a Borrower certification that the specific



#### Completion/Repairs have been completed:

- in a good and workmanlike manner;
- in accordance with any plans and specifications previously approved by the Servicer; and
- in compliance with all applicable laws, ordinances, rules, and regulations of any governmental authority, agency, or instrumentality having jurisdiction over the Property; and
- if the invoice exceeds the lesser of \$25,000 or 1% of the UPB:
  - a copy of the invoice detailing the covered materials, labor, or services;
  - payment evidence; and
  - a Lien release from each contractor, subcontractor, or materialman.

# 3. Disbursement of Funds (Excluding Final Disbursement)

The Servicer may disburse funds to the Borrower only if it has received all required documentation and determined that all applicable conditions for disbursement have been met, including (but not limited to) the following:

- all Completion/Repairs covered by the requisition have been completed in a good and workmanlike manner, as evidenced by the Borrower's submission and, if appropriate, an inspection of the completed work (see guidance on inspections below);
- all related invoices for items and services covered by the requisition have been paid, unless the Borrower has satisfied any applicable conditions of the Loan Documents for issuance of a joint check(s), made payable to the Borrower and the Person owed funds under such invoices;
- no mechanics' Liens, materialmen's Liens, or other Liens exist, unless acceptably bonded over;



- no default exists under any Loan Document;
- for each Green Rewards Efficiency Measure disbursement, the Efficiency Measure was reported as:
  - compliant on the Green Rewards
     Verification Inspection Form (Form 4221)
     per Part V, Chapter 4: Asset
     Management: Loan Document
     Administration, Section 408.03I: Green
     Rewards Efficiency Measure Verification;
     or
  - noncompliant, and Fannie Mae has approved and closed the remediation in DUS Property Monitor; and
- for a Green Rewards Mortgage Loan with a Solar PV System as an Efficiency Measure, Completion/Repair Escrow funds are only released after confirming commercial operation of the Solar PV System.

The amount disbursed to the Borrower for any requisition, other than the final requisition, may not exceed the actual cost of the Completion/Repairs, and may be less than the actual cost if, after disbursement, the amount of funds remaining in the Completion/Repair Escrow would be less than the anticipated cost of completing all remaining Completion/Repairs plus any holdback specified in the Loan Documents.

Notwithstanding the above, once 75% of the total dollar amount of Completion/Repairs is disbursed, the Servicer may release funds in the Completion/Repair Escrow, provided:

- funds are only released for Completion/Repairs that have been fully completed;
- the Servicer has complied with all other disbursement requirements;
- the Servicer completes an analysis showing that the remaining amount in the Completion/Repair Escrow is sufficient to complete all remaining Completion/Repairs;
- the Borrower affirms in writing its obligation to complete the remaining Completion/Repairs by



the required completion dates; and

the Completion/Repair Escrow is not for a Green Rewards Efficiency Measure that must be released per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 408.03I: Green Rewards Efficiency Measure Verification.

For Green Rewards Efficiency Measures included in a Moderate Rehabilitation Mortgage Loan, funds may be periodically disbursed from the applicable Completion/Repair Escrow or Rehabilitation Reserve Escrow as with a non-Green Rewards Mortgage Loan, rather than only after a compliant verification inspection of Efficiency Measures.

#### 4. Final Disbursement of Funds

Before making the final disbursement of funds from the Completion/Repair Escrow, the Servicer must confirm and document the absence of any mechanics' and materialmen's Liens by requiring the Borrower to obtain an updated title report or a title policy endorsement showing that no such Liens exist. The Servicer may waive the updated title report or endorsement when the total scope of work is less than \$75,000. If the Borrower fails to provide the required title documentation, the Servicer must obtain a title report or title policy endorsement, and may charge the Borrower for the cost.

The Servicer may make a final disbursement of all remaining funds upon satisfactory completion of all required Completion/Repairs, and satisfaction of all other applicable release conditions contained in the Loan Documents for Completion/Repairs.

# 5. Maintenance of Servicing File

The Servicer must document the action taken with respect to each Borrower requisition for funds from the Completion/Repair Escrow in its Servicing File.

# **408.03F** Inspections

## 1. Use of Third Party

The Servicer may inspect the Property, or have a qualified independent third party inspect the Property, to confirm that the Completion/Repairs covered by the requisition have been satisfactorily completed. The Servicer is responsible for monitoring



the third-party's performance.

### 2. When Periodic Inspections Are Required

Periodic inspections must be performed as the work progresses if the Completion/Repairs:

- exceed in the aggregate the lesser of:
  - \$500,000, or 20% of the UPB for any Mortgage Loan with loss sharing; or
  - \$250,000, or 10% of the UPB for any Mortgage Loan without loss sharing; and
- are likely to require more than 6 months to complete.

Inspections must occur at least every 6 months, or more frequently at the Servicer's discretion.

### 3. When a Final Inspection Is Required

An inspection must be performed to ensure that all Completion/Repairs have been satisfactorily completed before approving and disbursing the final requisition when the Completion/Repairs exceed the lesser of:

- \$500,000, or 20% of the UPB for any Mortgage Loan with loss sharing; or
- \$250,000, or 10% of the UPB for any Mortgage Loan without loss sharing.

# 4. Confirming Completion/Repairs if Inspection Is Not Required

Even if an inspection is not required by this Section, the Borrower must provide evidence to the Servicer that all Completion/Repairs covered by the requisition have been satisfactorily completed. If not inspected sooner, the Servicer must confirm the satisfactory completion of the Completion/Repairs during the next regularly scheduled Property inspection.

# 5. Documenting the Servicing File

In all instances, the Servicer must document in its Servicing File whether all work was satisfactorily completed.

**408.03G** Fees

Completion/Repair Escrow funds may not be used to cover



any administrative or inspection fees due to the Servicer unless expressly permitted Loan Documents, or the Borrower agrees in writing. If permitted, the Servicer may charge the Borrower and deduct the following from any disbursement of funds:

- reasonable fees to cover the Servicer's costs of administering the Completion/Repairs; and
- additional fees to cover any reasonable inspection costs that are not adequately covered by general administrative fees collected from the Borrower

# **408.03H** Completion/Repair Defaults

### 1. Notification of Default to Fannie Mae

The Servicer must immediately submit a Non-Monetary Default Borrower Request in the MAMP for any Completion/Repair Loan Document default.

#### 2. No Release of Funds to Borrower

No funds may be released to the Borrower while the Borrower is in default under any of the Loan Documents.

### **408.03I** Green Rewards Efficiency Measure Verification

For all Green Rewards Mortgage Loans, the Servicer must ensure a Green Rewards Verification inspection is performed for all Efficiency Measures to confirm correct installation, and identify any errors that may hinder the Property achieving the expected savings and benefits.

### 1. Green Rewards Verification Inspection

For a Green Rewards Verification inspection, the inspector must use the Green Rewards Verification Inspection Form (Form 4221) that is pre-populated with Property information and the Efficiency Measures identified as Green Rewards Repairs in the Completion/Repair Schedule. The Servicer must submit Form 4221 within 60 days after the Green Rewards Verification inspection date, and timely resolve any issues identified by Fannie Mae.

## 2. Minimum Inspector Qualifications

Third-party or Servicer staff must attend Fannie Mae's Green Rewards Verification inspection training on the requirements, processes, and documentation before conducting Green Rewards Verification inspections.



The minimum inspector qualifications correspond to the applicable Efficiency Measure type, and may be held by the inspection project team, rather than by an individual inspector.

Efficiency Measures	Description	Minimum Inspector Qualification
Basic	Simple upgrades such as:	Servicer must ensure the inspector is either a qualified third-party or Servicer staff
	• low-flow water fixtures; or	per Part V, Chapter 5: Surveillance, Section 502.03:
	• lighting improvements.	Property Inspection Protocol and Part V, Chapter 5:
		Surveillance, Section 502.05A: Qualifications.
Complex	Upgrades and changes to building	For Solar PV System     Efficiency Measures, the
	systems, such as:	Servicer must retain a - Solar Technical
	heat recovery	Consultant per Part III,
	ventilation systems; or	Chapter 4: Green Mortgage Loans, Section 401.03:
	boiler controls.	Technical Solar Report, or - qualified PCA High
		Performance Building
		Consultant per the Instructions for Performing a
		Multifamily Property Condition
		Assessment (Form 4099).
		For other Efficiency  Magazines the Continue must
		Measures, the Servicer must retain a qualified PCA High
		Performance Building
		Consultant per Form 4099.

# 3. Unit Inspection

The inspector must inspect a minimum number of occupied and vacant units as follows:



Total number of units	Minimum number of units to be inspected
Less than 20	3 units
20 - 55	5 units
56 - 99	10% of total units
100 - 200	10 units
201 - 600	5% of total units
More than 600	30 units

Form 4221 calculates the required number of units and tracks the number of completed units based on the user's inputs. When unit inspections are required, the Servicer must:

- Determine the appropriate combination of vacant and occupied units for inspection.
- Determine which vacant and occupied units to inspect.
- Submit at least:
  - 1 representative photograph of each Efficiency Measure listed on Form 4221: and
  - 1 photograph of each non-compliant Efficiency Measure.

For Partial Efficiency Measures, the Servicer must request a rent roll or other documentation identifying the units that received Partial Efficiency Measure installations, and conduct the Green Rewards Verification of those units.

### 4. Determining Compliance

An Efficiency Measure is compliant when the inspector:

- inspects each Efficiency Measure;
- verifies its proper installation within specifications using product information and field observation;
- confirms the Efficiency Measure installation meets the Multifamily Loan Agreement and Completion/Repair Schedule requirements; and



documents it on Form 4221.

### 5. Remediating Noncompliance

When an Efficiency Measure is noncompliant:

- The Servicer must:
  - provide a notice of the Efficiency Measure deficiencies to the Borrower and determine a course of action;
  - submit a remediation action plan through the DUS Property Monitor system that:
    - addresses the Property's Efficiency Measure deficiencies; and
    - provides a target date for remediation completion that is no more than 60 days after the Borrower receives the notice of deficiencies.
- The Borrower must correct or complete the Efficiency Measure installation during the remediation period.
- Fannie Mae may require the Servicer to inspect the remediated Efficiency Measures based on the severity of noncompliance.

### 6. Verification Inspection Form Review

The Servicer must internally review all Green Rewards Verification Inspection Forms (Form 4221), whether prepared by a third party or by the Servicer before submission.

# 408.04 Replacement Reserve

### **408.04A** General

The Loan Documents for administering Replacement Reserves are:

- Multifamily Loan Agreement and Replacement Reserve Schedule, for Mortgage Loans documented with the 6000 series Loan Documents; and
- Replacement Reserve Agreement, for Mortgage Loans documented with the 4000 series Loan Documents.

The Replacement Reserve funds must be held by the Servicer



in a Custodial Account, and are intended to pay for necessary replacements of capital items or major maintenance work to the Property over the term of the Mortgage Loan.

# **408.04B** Replacement Reserve Loan Document Amendments

If the Servicer's Limited Power of Attorney delegates the authority to amend the Loan Documents to revise the terms governing the Replacement Reserves, only the changes expressly permitted by this Section can be made, and the delegation does not expand the Servicer's ability to change or modify any other term of the Loan Documents.

The Servicer must send the executed Loan Document Amendment to Multifamily Certification and Custody within 15 Business Days, and retain a copy in its Servicing File.

# **408.04**C Servicer's Administrative Requirements

For all Replacement Reserves, the Servicer must:

- retain a copy of the executed Multifamily Loan Agreement and Replacement Reserve Schedule or Replacement Reserve Agreement in its Servicing File;
- unless the Borrower has requested in writing a non-interest bearing account, hold all funds in an interest-bearing Custodial Account that meets the requirements of Part V, Chapter 3: Custodial Accounts and the Loan Documents;
- ensure that all required deposits are made to the Replacement Reserve in accordance with the Loan Documents;
- process Borrower requisitions for funds in accordance with the terms and conditions of the Loan Documents;
- perform required inspections of completed work and, if appropriate, work in progress, and arrange, if necessary, for inspections by qualified professionals;
- ensure that work funded from the Replacement Reserve does not result in any mechanics' Liens, materialmen's Liens, or other Liens that have not been acceptably bonded over;
- promptly submit a Non-Monetary Default Borrower Request in the MAMP for any Replacement Reserve Loan Document default;



- take appropriate steps to remedy or address any default under the Loan Documents for Replacements, Repairs, or Restoration; and
- reassess the adequacy of the Replacement Reserve or the schedule of required deposits; and
- perform all other administrative duties required by the Loan Documents for the Replacement Reserve.

# **408.04D** Modifications to Replacement Reserve Deposits

Based on the results of a Property inspection or a new Property Condition Assessment as required below, the Servicer may determine that the current level of Replacement Reserve funding and scheduled deposits will be insufficient to meet all projected capital item or major maintenance needs. The Servicer must then:

- adjust the Replacement Reserve Schedule or the Replacement Reserve Agreement and the Replacement Reserve funding to a sufficient level, if warranted, in accordance with the Loan Documents and Part III, by requiring the Borrower to:
  - deposit a lump sum into the Replacement Reserve; and/or
  - increase the monthly Replacement Reserve deposit; and
- give the Borrower at least 30 days advance written notice prior to implementing any of the foregoing changes.

Based on the results of the new Property Condition Assessment obtained during the underwriting and delivery of a Supplemental Mortgage Loan, the Servicer may:

- adjust the Replacement Reserve funding, scheduled deposits, and Completion/Repair Schedule of all Pre-Existing Mortgage Loans to match the Supplemental Mortgage Loan underwriting; and
- amend the Loan Documents accordingly.

### **408.04E** New Property Condition Assessments

1. Timing and Waivers



A new full PCA per Form 4099 is required for:

- all MAH Properties every 5 years; or
- for any other Mortgage Loan with a term greater than 10 years, during the 10th Loan Year, and every 10 years thereafter, while the Mortgage Loan remains outstanding, or per the Loan Documents.

Notwithstanding the above, the Servicer is delegated the authority to waive the new PCA for non-MAH Properties as follows:

Remaining Loan Term	Servicer Delegation
Less than 1 Year	The new PCA may be waived for a Mortgage Loan with a:
	<ul> <li>Pass rating;</li> <li>Property inspection less than 1 year old; and</li> <li>Property condition rating of 1, 2, or 3.</li> </ul>
1 Year to 5 Years	The new PCA may be waived for a Mortgage Loan with a:
	<ul> <li>Pass rating;</li> <li>Property inspection report less than 1 year old;</li> <li>and</li> <li>Property condition rating of 1 or 2.</li> </ul>
More than 5 Years	The new PCA may be waived for 5 years for a Mortgage Loan with a:
	<ul> <li>Pass rating;</li> <li>Property Inspection report less than 1 year old; and</li> <li>Property condition rating of 1 or 2.</li> </ul>

After 5 years, a new PCA is required unless the Mortgage Loan continues to qualify for Servicer waiver delegation. A Property may only receive a PCA waiver twice (i.e., a Mortgage Loan with a 30-year term may obtain a PCA waiver after the 10th loan year and the 15th loan year, but a new PCA is required after the 20th loan year).

All PCA waivers must be documented in the Servicing File,



and any PCA waiver may be rescinded by Fannie Mae or the Servicer at any time if the Property condition warrants a new PCA.

# 2. Delivery and Payment of Property Condition Assessment

The Servicer must submit any new PCA to Fannie Mae through the MAMP and retain a copy in its Servicing File. Subject to the terms of the Loan Documents, the cost of the PCA may be paid from funds in the Replacement Reserve.

# **408.04F** When Replacement Reserve Funding Was Partially or Fully Waived

If Replacement Reserve funding was partially or fully waived at the Mortgage Loan Origination Date, the Servicer must monitor the condition of the Property to ensure the Borrower preserves and maintains the Property as required by the Loan Documents.

If the Servicer or Fannie Mae determines that the Borrower is not properly preserving and maintaining the Property, the Servicer must require the Borrower to begin making monthly deposits to the Replacement Reserve in accordance with either the funding schedule set forth in the Loan Documents, or an alternative funding schedule determined by the Servicer.

### **408.04G** Interest on Replacement Reserve Funds

If the Servicer holds the Replacement Reserve funds in an interest-bearing Custodial Account, none of the interest earned on the Replacement Reserve funds may be retained by the Servicer. Unless the Mortgage Loan is in default, all interest must be:

- added to the balance of the Replacement Reserve; or
- paid to the Borrower if applicable law requires or the Servicer agrees.

### **408.04H** Items Eligible for Funding from the Replacement Reserve

Replacement Reserve funds are available to reimburse the Borrower for costs incurred to replace capital items or maintain major items specifically identified in the Loan Documents.

Replacement Reserve funds also may be used for discretionary replacements of capital items or major maintenance items that are not specifically identified in the Loan Documents, but which the Servicer determines are intended to be covered by a Replacement Reserve Schedule, such as those that would:



- correct or forestall a problem that may adversely affect the physical condition, livability, marketability, or value of the Property;
- directly contribute to the maintenance or enhancement of the Property's physical condition, livability, marketability, or value; or
- likely be noted in an updated Property Condition Assessment.

If Replacement Reserve funds are used for purposes not originally contemplated in the Loan Documents, the Servicer must monitor and adjust the monthly reserve deposits to ensure sufficient funds are available to make timely replacements of capital items or major maintenance items in the manner contemplated in the Loan Documents and/or the PCA.

# **408.04I** Items Not Eligible for Funding from the Replacement Reserve

The Servicer must not use Replacement Reserve funds to reimburse the Borrower for any item specifically identified for reimbursement as a Completion/Repair, or for any routine maintenance item, routine repair, or cosmetic repair that would normally be characterized as an operating expense. Replacement Reserve funds must never be used for P&I, T&I, or any other purpose not specifically permitted by the Loan Documents, or the Guide.

### **408.04J** Processing Borrower Requisitions

#### 1. General

The Loan Documents specify the frequency, timing, and size of disbursements from the Replacement Reserve.

#### 2. Required Documentation

Each Borrower requisition must be in writing and specify, at a minimum:

- the specific capital item replaced or major maintenance items for which reimbursement is being sought, and if any item is not specifically identified in the Loan Documents, an explanation of why the Replacement Reserve funds should be released for the item;
- the quantity and price of each type of capital item



replaced (e.g., refrigerators);

- the quantity and price of all materials or parts (grouped by type or category) purchased; and
- the cost of all contracted labor or other services.

Each Borrower requisition submitted to the Servicer must be accompanied by:

- a Borrower certification that the capital item replacements or major maintenance items covered by the requisition have been completed in compliance with all applicable laws, ordinances, rules, and regulations of any governmental authority, agency, or instrumentality having jurisdiction over the Property; and
- if the invoice exceeds the lesser of \$25,000 or 1% of the UPB:
  - a copy of the invoice detailing the covered materials, labor, or services;
  - payment evidence;
  - a Lien release from each contractor, subcontractor, or materialman; and
  - other relevant documentation required by the Loan Documents.

#### 3. Disbursement of Funds

The Servicer may release funds to the Borrower only if all required documentation is received, and all applicable release conditions have been met, including, but not limited to:

- all capital item replacements or major maintenance items covered by the requisition have been completed in a good and workmanlike manner;
- all related invoices for capital items and services have been paid, unless the Borrower has satisfied any applicable conditions of the Loan Documents for issuance of a joint check, made payable to the Borrower and the Person owed funds:
- no mechanics' Liens, materialmen's Liens, or other Liens are outstanding that have not been acceptably



#### bonded over; and

the Borrower is not in default under any Loan Document.

The amount disbursed to the Borrower must not exceed the actual cost of the capital item replacements or major maintenance items covered by the Borrower's requisition.

### 4. Maintenance of Servicing File

The Servicer must ensure that the action taken with respect to each Borrower requisition for funds from the Replacement Reserve is appropriately documented in its Servicing File.

# 408.04K Inspections

The Servicer may use its discretion in deciding whether to conduct an on-site inspection before approving any specific requisition for Replacement Reserve funds. If the Servicer elects not to perform an on-site inspection when a requisition is submitted, the Servicer must inspect all capital item replacements or maintenance items covered by the requisition during its next scheduled Property inspection and confirm the satisfactory completion.

### **408.04L** Fees

If the Loan Documents permit, the Servicer may collect and retain:

- a reasonable fee to cover the Servicer's routine costs of administering the Replacement Reserve; and
- additional fees to cover:
  - reasonable inspection costs, including the fees of any qualified professional used by the Servicer; and
  - any other reasonable costs incurred in connection with collecting, holding, investing, or disbursing Replacement Reserve funds but which are not adequately covered by the general administrative fees collected from the Borrower.

Subject to the Loan Documents, the Servicer may charge the Borrower a reasonable fee for any special inspection services provided in connection with a Replacement Reserve requisition; however, no fee may be charged if such inspection is made as part of a regularly



scheduled Property inspection.

Replacement Reserve funds, including any interest, may not be used to cover fees due to the Servicer unless:

- the Loan Document specifically permits the Servicer to use Replacement Reserve funds to pay Servicer inspection fees; or
- the Borrower otherwise agrees in writing.

### **408.04M** Replacement Reserve Defaults

# 1. Notification of Default to Fannie Mae

The Servicer must immediately submit a Non-Monetary Default Borrower Request in the MAMP for any Replacement Reserve Loan Document default.

#### 2. No Release of Funds to Borrower

No funds may be released to the Borrower while the Mortgage Loan is in default.

# **408.04N** Return of Replacement Reserve Funds to Borrower

No later than 30 days after the Mortgage Loan is paid in full, the Servicer must refund to the Borrower all remaining Replacement Reserve funds.

# **408.040** Alternative Funding of Replacement Reserves for Portfolio Mortgage Loans

The Servicer may amend existing the Schedule 5 to Multifamily Loan Agreement - Replacement Reserve Schedule or Replacement Reserve Agreement on Fannie Mae's behalf to match the alternative Replacement Reserve funding available for newly originated Mortgage Loans if the Borrower has a history of adequate property maintenance, and no other concerns are present (e.g., declining Property condition, declining rents, declining Net Cash Flow). The Servicer must send the executed Loan Document amendment revising the Replacement Reserve Schedule or Replacement Reserve Agreement to Multifamily Certification and Custody within 15 Business Days, and retain a copy in its Servicing File.

The Servicer must ensure the Property is properly maintained on an ongoing basis. If the Property is not being properly maintained, the Servicer must reinstate monthly deposits to the Replacement Reserve and the reimbursement requisition process.



### Section 409

# **Interest Rate Hedge Requirements**

#### **409.01** General

An acceptable Interest Rate Hedge must be in place and maintained at all times for:

- variable rate Credit Enhancement Mortgage Loans;
- Structured ARM Loans; and
- any Mortgage Loan where (i) the Borrower executed the Fannie Mae Interest Rate Cap Reserve and Security Agreement (Form 6442 series), or a similar agreement, allowing for a "springing" Interest Rate Cap under certain circumstances, and (ii) the requirement of the Borrower to acquire and pledge to the Lender an Interest Rate Cap has been triggered under the agreement.

The Interest Rate Hedge may be either an Interest Rate Cap or Interest Rate Swap, although the prior approval of Fannie Mae is required before the Borrower may enter into an Interest Rate Swap.

Each Interest Rate Hedge Agreement and its collateral assignment must meet the requirements of Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans.

Fannie Mae outside counsel must be engaged, at Borrower's cost, to review the hedge bid package and documents, and prepare the amended Loan Documents for each hedge renewal. The Servicer must submit a completed Counsel Designation Request for Interest Rate Hedge Transactions (Form 4625.A).

# **409.02** Interest Rate Hedge Coverage

### **409.02A** Bond Credit Enhancement Transactions

For Bond Credit Enhancement Mortgage Loans, the Interest Rate Hedge must:

- be in place whenever the variable rate mode is in effect; and
- comply with the requirements of the Reimbursement Agreement and other Loan Documents.

Per the Interest Rate Cap Reserve and Security Agreement (Form 6442 series), the Servicer must evaluate the Interest Rate Cap



reserve and determine if the cost of a replacement Interest Rate Cap has increased or decreased based on market conditions.

- If the estimated cost of a replacement cap has increased, the Servicer must increase the monthly reserve payment to ensure sufficient funds will be available to purchase the replacement cap by the end of the reserve period.
- If the estimated cost of a replacement cap has decreased, the Servicer must not adjust the reserve.

# **409.02B** Structured Transactions

When required for a Structured Transaction, the Servicer must ensure that the Interest Rate Hedge conforms to the applicable Master Credit Facility Agreement, Bulk Delivery Agreement, and/or the other Loan Document requirements.

**409.02C** Adjusting Interest Rate Hedge Reserves for SARM Loans Using Form 6442 Series with an Effective Date Before May 2024

Per the Interest Rate Cap Reserve and Security Agreement (Form 6442 series), the Servicer must evaluate the Interest Rate Cap reserve and determine if the cost of a replacement Interest Rate Cap has increased or decreased based on market conditions.

- If the estimated cost of a replacement cap has increased, the Servicer must increase the monthly reserve payment to ensure that sufficient funds will be available to purchase the replacement cap by the end of the reserve period.
- If the estimated cost of a replacement cap has decreased, the Servicer may:
  - opt to not adjust the reserve; or
  - calculate and adjust the monthly escrow payments needed to purchase a replacement Interest Rate Cap based on 115% of the cost of an Interest Rate Cap with the term required by the Loan Documents, provided:
    - it is a Portfolio Mortgage Loan Delivered before January 1, 2023;
    - the Interest Rate Cap escrow payments are recalculated at least every 6 months;
    - it is not part of a Variable Rate Bond C redit



#### **Enhancement Transaction**;

- it does not have an existing Payment Default or Performance Default under the Loan Documents or a Borrower, Key Principal, or Principal on ACheck; and
- no other Portfolio Mortgage Loans in your Fannie Mae portfolio with that Sponsor have an existing Payment Default or Performance Default.

The Servicer may refund to the Borrower any amount left in the reserve account after purchasing the replacement Interest Rate Cap.

**409.02D** Adjusting Interest Rate Hedge Reserves for SARM Loans Using Form 6442 Series with an Effective Date of May 2024 or Later

Every 6 months the Servicer must adjust the required Interest Rate Cap escrow amount based on 110% of the current cost of the replacement Interest Rate Cap.

### **409.03** Interest Rate Hedge Term

#### The Servicer must:

- monitor the term of each Interest Rate Hedge Agreement;
- hold all escrowed funds for an Interest Rate Hedge in an account meeting the Custodial Account requirements of Part V, Chapter 3: Custodial Accounts;
- engage the Borrower prior to expiration of each Interest Rate Hedge to ensure that an acceptable replacement Interest Rate Hedge is in place prior to its expiration; and
- perform any required functions with respect to the Interest Rate Hedge Agreement.

# 409.04 Lien Filings and Collateral

The Servicer must maintain all UCC filings, and ensure that Fannie Mae's Lien in the Interest Rate Hedge is maintained. The Servicer must not direct the investment, application, or release of the collateral under any Interest Rate Hedge Agreement, without express written authorization from Fannie Mae.



# **409.05** Borrower Payments

### **409.05A** Interest Rate Caps

Any payments by the Interest Rate Cap provider must be made to the Servicer and not to the Borrower. The disposition of funds depends on whether the Borrower is current on the Mortgage Loan and Reimbursement Agreement payment obligations (principal or PRF deposit, as applicable, interest, any Interest Rate Cap escrow, and all other amounts then due) or any default exists under the Reimbursement Agreement or any other Loan Document.

If no default exists, the Servicer must remit the Interest Rate Cap provider's payment to the Borrower. If a default exists, the Servicer must retain the Interest Rate Cap provider's payment as additional collateral for the Borrower's obligations, to be held in accordance with the applicable agreements, and notify Multifamily Structured Asset Management of the receipt of the payment.

If the Bond Trustee or another third party is to receive any payments from the Interest Rate Cap provider, and the Borrower is not current on its payments or a default exists, then the Servicer must:

- notify the payee of the facts; and
- instruct the third party to withhold the payment to the Borrower, and make payment to the Servicer to be held as additional collateral for the Borrower's obligations.

### **409.05B** Interest Rate Swaps

The Servicer must monitor the Interest Rate Swap to ensure that all payments are made on a timely basis. All payments under an Interest Rate Swap must be made directly to the Servicer, which will:

- remit the amount received from the Borrower to the Interest Rate Swap provider; or
- remit the amount received from the Interest Rate Swap provider to the Borrower, but only after the Borrower has made the required monthly P&I payment on the Mortgage Loan.

Payments due on the Interest Rate Swap must match the payment dates on the Mortgage Loan or the Bonds, as applicable. The Servicer must advance Interest Rate Swap payments and Interest Rate Swap credit enhancement fees that are not made by the Borrower or the Interest Rate Swap provider, as applicable, on a timely basis.



These payments and their duration will be treated as Delinquency Advances. The Servicer is not required to advance any termination payment due on the Interest Rate Swap.

# **409.06** Provider Ratings

Fannie Mae lists the credit agency rating requirements and the acceptable Interest Rate Hedge providers on Cap/Swap Counterparties for Multifamily Transactions. If the rating of a provider declines to a level where termination and replacement of the outstanding Interest Rate Hedges with that provider is required, Fannie Mae will notify the affected servicers and direct them to contact their Borrowers and work with them to effect the termination and replacement. Failure to replace any Interest Rate Hedge provider whose rating no longer meets the rating requirements is a default under the Loan Documents.

# **409.07** Replacement Interest Rate Hedge and Notification

If the current Interest Rate Hedge expires before the Mortgage Loan Maturity Date, at least 90 days before the Interest Rate Hedge terminates, the Servicer must obtain the Borrower's written intention to:

- purchase a replacement Interest Rate Hedge; or
- convert the interest rate on a variable rate:
  - Credit Enhancement Mortgage Loan to a Bond Reset Interest Rate; or
  - SARM Loan to a fixed rate.

If the Borrower elects to purchase a replacement Interest Rate Hedge, the Servicer must:

- confirm that the possible Interest Rate Hedge providers are all on the current list of approved Cap/Swap Counterparties for Multifamily Transactions;
- review the Loan Documents for the replacement Interest Rate Hedge timing requirements; and
- for a replacement Interest Rate Cap, ensure the:
  - Borrower purchases a replacement Interest Rate Cap with a term equal to the lessor of the:
    - remaining Mortgage Loan term; or
    - term specified in the Loan Documents;



- replacement Interest Rate Cap's notional amount:
  - equals the Mortgage Loan's UPB when the replacement Interest Rate Cap becomes effective; and
  - remains at that amount throughout the replacement Interest Rate Cap's term; and
- Cap Strike Rate of the replacement Interest Rate Cap is equal to or less than the Cap Strike Rate required per the Loan Documents.

The Borrower may purchase a replacement Interest Rate Cap in advance if the replacement Interest Rate Cap becomes effective on the initial Interest Rate Cap's Maturity Date.

If the Interest Rate Hedge expires and the Borrower failed to provide evidence of securing the replacement Interest Rate Hedge, the Servicer must notify Multifamily Structured Asset Management immediately. Fannie Mae will instruct the Servicer's action regarding the Borrower's default.

# **409.08** Replacement Interest Rate Hedge Documents and Follow Up

The Servicer must send to Multifamily Certification and Custody within 15 Business Days the original replacement Interest Rate Hedge documents, including the Interest Rate Cap Agreement or Interest Rate Swap Agreement, the Assignment of Hedge Interest or Supplemental Hedge Security Agreement, and UCC Financing Statements, and retain copies in the Servicing File. The Servicer must submit a copy of the new Interest Rate Cap Agreement or Interest Rate Swap Agreement through the MAMP, and provide the new Interest Rate Hedge information as follows:

- for Credit Enhancement Mortgage Loans upload Hedge Delivery Information (Form 4643) into CESIR;
- for all Interest Rate Hedges in Credit Facility and Bulk Delivery transactions – update hedge data in MSFMS; or
- for Structured ARM Loans (except in Credit Facility and Bulk Delivery transactions) – submit Form 4643 through the MAMP.

### **Section 410** Ground Leases



If the Borrower owns a Leasehold interest in the Property, the Servicer must:

- ensure that the Borrower complies with all provisions of the Loan Documents that relate to the Ground Lease;
- if the Ground Lease payments are escrowed, collect monthly payments from the Borrower to ensure sufficient funds will be available to pay the ground rents and any special payments required by the Ground Lease; and
- hold any escrowed ground rent payments with the Borrower's other T&I escrow funds in a T&I Custodial Account or a separate Custodial Account that meets all requirements of Part V, Chapter 3: Custodial Accounts.

The Servicer is responsible for any losses incurred by Fannie Mae if the Servicer fails to make timely ground rent payments. The Servicer must immediately submit a Non-Monetary Default Borrower Request in the MAMP for any Ground Lease default.

# **Section 411**

Notice of Lien or Noncompliance with Applicable Laws, Ordinances and Regulations

The Servicer is responsible for protecting the Lien priority of the Security Instrument, and must:

- take all reasonable actions to prevent the filing of any Lien that would prime the Lien of the Security Instrument;
- immediately notify Multifamily Asset Management, in writing, upon learning of any such Lien filing, including a recommendation for resolving the situation; and
- submit a Non-Monetary Default Borrower Request in the MAMP, if:
  - the Servicer is aware of any material violation by the Borrower or Property manager of any applicable law, ordinance, regulation, or other legal requirement; or
  - the Property is not in compliance with any applicable law, ordinance, regulation, or other legal requirement, including, without limitation, any relating to:
    - Fair Housing Act;
    - Americans with Disabilities Act;



- non-discrimination;
- environmental hazards;
- occupancy;
- zoning and land use;
- health, fire, and building codes relating to immediately hazardous conditions; and
- illegal use of the Property.

The Servicer must also provide to Fannie Mae all information concerning any lawsuit, cause of action, or claim by any third party resulting from or relating to the violation.

# **Section 412** Property Forfeitures and Seizures

Various federal and state statutes provide for the civil or criminal forfeiture of certain types of property, including real estate that is used, or intended to be used, to commit or facilitate the commission of certain violations of law.

The Servicer must not provide any information about the Borrower, the Mortgage Loan, the Property, any Key Principal, or any Principal directly to any federal or state agency unless Fannie Mae specifically authorizes the release of the information. Following any contact from a federal or state official, the Servicer must immediately contact Multifamily Asset Management and Multifamily Special Asset Management. The Servicer should describe in its communication the nature of the contact, the information requested, and any document or papers received by the Servicer in connection with the contact. The Servicer must continue to service the Mortgage Loan.

# **Section 413** Property and Liability Insurance

# **413.01** Property and Liability Insurance

# **413.01A** Generally

The Servicer must ensure:

- the Property is continuously covered by property and liability insurance per Part II, Chapter 5: Property and Liability Insurance;
- all renewal premiums are fully paid on time in:



- an annual lump sum; or
- installments; and
- any Borrower- financing of premiums complies with Part II, Chapter 5: Property and Liability Insurance, Section 501.01F: Payment of Premium, and either:
  - the Modifications to Multifamily Loan and Security Agreement (Financing of Insurance Premiums) (Form 6272) was executed on the Mortgage Loan Origination Date; or
  - prior to the Borrower entering into a premium financing agreement, execute and submit through the MAMP an Amendment to the Multifamily Loan and Security Agreement, substantially in the form of the Modifications to Multifamily Loan Agreement (Financing of Insurance Premiums) (Form 6272).

If no insurance escrows are collected, the Servicer must:

- obtain annual evidence that all policies were fully paid; and
- for Borrower-financed premiums, retain in the Servicing File:
  - receipts confirming timely payments; and
  - a copy of the financing agreement.

### 413.01B Policy Renewal

For each policy renewal, the Servicer must comply with the following timeline.

Timeline	The Servicer must
No later than 60 days before the policy expiration date	Contact the Borrower to request an original or duplicate original of each renewal policy within 90 days after the policy's expiration date.



Timeline	The Servicer must
No later than 15 days after the earlier of:  • receipt of each renewal policy; or • the date the policy was due	<ul> <li>Determine if the insurance coverage complies with Part II, Chapter 5: Property and Liability Insurance.</li> <li>If non-compliant, immediately notify: <ul> <li>the Borrower to resolve all non-compliant items; and</li> <li>Fannie Mae per a Non-Monetary Default Borrower Request in the MAMP.</li> </ul> </li> </ul>
No later than 60 days after notifying the Borrower of any noncompliant renewal policy	Resolve all non-compliant items with the Borrower and/or insurance agent (e.g., obtain a compliant renewal policy or endorsement, request a waiver, obtain force place coverage, etc.).
If, after 60 days, neither a compliant renewal policy nor an insurance waiver is obtained	<ul> <li>Submit a Non-Monetary Default Borrower Request in the MAMP.</li> <li>Immediately send the Borrower a Reservation of Rights Letter (Form 4804).</li> </ul>

# **413.01C** Compliance Review

With each renewal, but at least annually, the Servicer must:

- complete an insurance compliance checklist to review the adequacy of the Borrower's insurance coverage and ensure compliance with:
  - Part II, Chapter 5: Property and Liability Insurance;
  - all Fannie Mae-approved modifications; and
  - the Loan Documents;
- confirm the insurance carrier's rating per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 413.01E: Ratings; and
- retain in the Servicing File the:
  - checklist;
  - evidence of the insurance carrier's rating; and
  - if terrorism insurance is required, the analysis when



### annually confirming insurance compliance.

For an unrated Risk Retention Group or Captive Insurer, the Servicer must also comply with Part II, Chapter 5: Property and Liability Insurance, Section 501.01C: Risk Retention Groups and Captive Insurance.

# **413.01D** Exceptions

The Servicer must submit any insurance exception, including a delegated one, through the MAMP, with:

- a Multifamily Exception Request (Form 4638) for each exception signed by the authorizing person;
- a recommendation explaining why any non-delegated waiver request should be approved;
- all supporting documentation; and
- any previous exception not approved for the life of the Mortgage Loan, on an annual basis.

# **413.01E** Ratings

All property and liability insurance carriers for renewal policies must comply with the following.

If rated by	Insurance carrier must have a
A.M. Best Company	<ul> <li>General Policyholder Rating of A- or better;</li> <li>and</li> <li>Financial Size Category of VI or better.</li> </ul>
Demotech, Inc.	Financial Stability Rating of A or better.

This rating requirement does not apply to:

- state pools or funds; or
- NFIP policies.

Per the Loan Documents, even if the policy has not yet expired, the Servicer must require the Borrower to immediately obtain replacement coverage with a compliant carrier if the carrier is downgraded below:



- B++, if rated by A.M. Best Company; or
- A, if rated by Demotech, Inc.

# **413.02** No Servicer Financing of Insurance Premiums

The Servicer must not provide financing to the Borrower for the payment of any insurance premiums.

# **413.03** Flood Map Changes; Obtaining Flood Insurance

The Servicer must monitor all flood map and community status changes, and take appropriate action when changes affecting Mortgage Loans it services occur. When a Property is remapped into a Special Flood Hazard Area, the Servicer must require the Borrower to obtain flood insurance, regardless of whether the community is "participating" in the National Flood Insurance Program. The flood insurance must:

- be in place within 45 days after the date the Servicer was notified of the remapping; and
- have coverage meeting the mandatory purchase requirements identified in:
  - the Federal flood insurance statutes; and
  - any applicable Federal agency rulemaking and publication.

If the Borrower refuses to obtain the required coverage or pay a disputed premium, the Servicer must obtain the required coverage. The Servicer must contact Multifamily Insurance if:

- a Property is mapped into a Special Flood Hazard Area;
- the community in which the Property is located does not participate in the National Flood Insurance Program; and
- the Borrower cannot obtain the required flood insurance.

To remove a Property/building from an SFHA, only an updated FEMA Standard Flood Hazard Determination Form (SFHDF) based on the following is acceptable:

- Letter of Map Amendment (LoMA);
- Letter of Map Revision (LoMR); or



Letter of Determination Review (LoDR).

### **413.04** Lender Placed Insurance

# **413.04A** Property and Liability Insurance

The Servicer must immediately:

- obtain the required property and liability insurance, at the Borrower's expense, if:
  - the Borrower fails to obtain acceptable insurance coverage; or
  - per the Loan Documents, even if the policy has not yet expired, the carrier is downgraded below the required ratings per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 413.01E: Ratings; and
- notify Fannie Mae if the Servicer obtains the required property and liability insurance.

# **413.04B** Servicer's Administrative Costs and Expenses

The Servicer is permitted to collect from the Borrower any reasonable out-of-pocket costs and expenses incurred by the Servicer to obtain insurance coverage for the Property.

# **Section 414** Casualty Losses – Performing Mortgage Loans

#### **414.01** Notice

In the event of a casualty loss of \$75,000 or more, the Servicer must submit through the MAMP a:

- Report of Multifamily Hazard Insurance Loss (Form 178):
  - within 30 days if no serious injury or death occurred; or
  - within 10 days if serious injury or death occurred; and
- final Form 178 indicating that the Property is fully restored, and document its Servicing File when the Property is fully restored.

A revised Form 178 must be submitted if any of the



information on the form changes for any casualty loss greater than the lesser of (i) \$500,000, or (ii) 20% of the UPB.

# **414.02** Filing Proof of Loss

For any casualty loss covered by the Borrower's insurance policy, the Servicer must ensure that the Borrower timely files a proof of loss with the insurance carrier, and effects a prompt and reasonable adjustment of the loss. If the Borrower fails to timely file a proof of loss with the insurance carrier, or take requisite actions to effect a prompt adjustment of the loss claim, the Servicer must independently contact the insurance carrier to adjust the loss claim.

### **414.03** Casualty Loss Assessment

The Servicer must assess the extent and impact of any damage caused by a casualty, and ensure that the Borrower appropriately addresses the damage.

Within 45 days after learning of a casualty loss, the Servicer must document its Servicing File with the results of its casualty loss assessment. At a minimum, the Servicer must include:

- when the casualty loss occurred and when the Servicer was first informed of the casualty loss;
- the scope of the damage and its effect on the Property (e.g., impact on the habitability of the buildings, safety of the residents, serious injury or loss of life, project occupancy, and project income and expenses);
- the Borrower's plan of action for securing and restoring the damaged portion of the Property, and the status of the Borrower's efforts to implement the plan, including the specific steps to be taken (e.g., temporarily relocating tenants, preparing plans and specifications, awarding contracts, and commencing repair work);
- whether any environmental problems are associated with the damage, and if so, how they will be addressed;
- the projected cost to repair and restore the damaged Improvements, including any available information on contractors' bids or awards;
- whether the casualty loss is covered by the Borrower's insurance policy, the status of any insurance claim, and an estimate of the amount and timing of the funds to be



received from the insurance carrier;

- the estimated amount of additional funds that the Borrower will have to provide from its own resources to complete all necessary repair and restoration work, and the current availability of such funds; and
- any other relevant information pertaining to the loss event that is known to the Servicer and could have a material bearing on Fannie Mae's interests.

# **414.04** Required Casualty Loss Property Inspection

The Servicer must inspect the Property, take photographs of the damage, and complete a Multifamily Catastrophic Loss Inspection (Form 4261) if:

- the casualty loss is expected to exceed the lesser of (i) \$500,000, or (ii) 20% of the UPB of the Mortgage Loan as of the date of the casualty; or
- any of the following conditions exists:
  - a default has occurred and is continuing under the Loan Documents;
  - the combination of insurance proceeds and Borrower funds is insufficient to complete the necessary Property repairs for restoration to a condition fit for human habitation and meeting all applicable permitting requirements;
  - prior to the commencement of any restoration work, the Servicer determines that, upon completion of the repair and restoration work, the Property will not be capable of generating sufficient income to cover all operating expenses, required Replacement Reserve deposits, P&I on the Mortgage Loan, and required payments on any subordinate debt secured by the Property, or will not otherwise meet a DSCR or other test required by the Loan Documents; or
  - the repair and restoration work will not be completed by the earlier of (i) the Maturity Date, or (ii) within 1 year from the date of the casualty.

The Servicer may charge the Borrower for the cost of the inspection unless expressly prohibited by the Loan Documents.



An inspection by the Servicer is optional if the casualty loss is expected to be less than (i) \$500,000, or (ii) 20% of the UPB, and none of the above conditions exist. If the Servicer elects not to inspect the Property, the Servicer must confirm during the next Property inspection, and document in its Servicing File, that the repair and restoration work was satisfactorily completed. If the Servicer determines that the repair or restoration work was not satisfactorily completed, the Servicer must notify Multifamily Inspections and Multifamily Loss Mitigation) in writing, as required by Part V, Chapter 5: Surveillance.

### **414.05** Documentation for Required Casualty Loss Property Inspections

After inspecting the Property, the Servicer must:

- retain in its Servicing File a copy of the completed
   Catastrophic Loss Inspection (Form 4261), and
   photographs of the damaged portions of the Property; and
- submit a copy of the Catastrophic Loss Inspection (Form 4261) and the photographs through the MAMP within 7 days after completing the Catastrophic Loss Inspection (Form 4261).

# 414.06 Endorsement of Insurance Loss Draft or Check When Payable to Fannie Mae

Any insurance loss draft or check issued by the insurance carrier must be made payable to Fannie Mae in care of the Servicer, or as otherwise required by the mortgagee clause. Provided the Lender Contract contains nothing to the contrary, the Servicer is delegated the authority to endorse any insurance loss draft or check on Fannie Mae's behalf, as follows:

Fannie Mae

By: [Name of Servicer]

By: [Name of Servicer's Authorized Signer]

[Title of Servicer's Authorized Signer].

If any insurance loss draft or check made payable to Fannie Mae or the Servicer is cashed by the Borrower without proper endorsement by Fannie Mae or the Servicer, the Servicer must instruct the Borrower to send the funds to the Servicer within 5 Business Days. If the Borrower does not send the funds, the Servicer must contact Multifamily Asset Management immediately.

**414.07** Endorsement of Insurance Loss Draft or Check When Not Payable to Fannie Mae

If the insurance loss draft or check is payable to the Servicer,



the Servicer is authorized to endorse the draft or check and apply the proceeds in accordance with this Section. The Servicer must also send the Insurer an Insurance Loss Payee Notice Letter (Form 4803) so that all future insurance loss drafts and checks will be issued to Fannie Mae in care of the Servicer. The Servicer must retain a copy of the Insurance Loss Payee Notice Letter (Form 4803) in its Servicing File.

## **414.08** Insurance Loss Draft or Check Not Payable to Either Fannie Mae or Servicer

If the insurance loss draft or check is not made payable to either Fannie Mae or the Servicer, the Servicer must return it to the insurance carrier and request the loss draft or check be reissued in the name of Fannie Mae and sent to the Servicer. If the check has already been cashed by the Borrower, the Servicer must demand those funds be either paid by the Borrower to the Servicer and/or deposited in a Custodial Account meeting the requirements of Part V, Chapter 3: Custodial Accounts.

# **414.09** Application of Insurance Loss Proceeds

The Servicer must review the Loan Documents to confirm no contrary requirements exist regarding the application of insurance loss proceeds (e.g., where the Loan Documents require the noteholder to "reasonably" approve the application of insurance proceeds, where the noteholder is to apply commercially reasonable standards, or where the noteholder has the power to approve in its sole discretion).

### **414.09A** Fannie Mae Determination Required

If any of the following conditions exist, Fannie Mae will determine, in its sole discretion, whether to require the insurance loss proceeds to be (i) applied to the UPB, or (ii) used to repair and restore the Property:

- a default has occurred and is continuing under the Loan Documents:
- the combination of insurance proceeds and Borrower funds is insufficient to complete the necessary Property repairs for restoration to a condition fit for human habitation and meeting all applicable permitting requirements;
- prior to the commencement of any restoration work, the Servicer determines that, upon completion of the repair and restoration work, the Property will not be capable of generating sufficient income to cover all operating expenses, required Replacement Reserve deposits, P&I on



the Mortgage Loan, and required payments on any subordinate debt secured by the Property, or will otherwise meet a DSCR or other test required by the Loan Documents; or

the repair and restoration work will not be completed by the earlier of (i) the Maturity Date, or (ii) within 1 year from the date of the casualty loss.

# **414.09B** Disposition of Insurance Loss Proceeds

Based upon the Borrower's plan of action and the Servicer's overall assessment, and provided none of the conditions listed in Part V, Chapter 4: Asset Management: Loan Document Administration, Section 414.04: Required Casualty Loss Property Inspection exist, the Servicer has the authority to:

- hold the proceeds to incrementally reimburse the Borrower for the cost of repairing the damage and restoring the Property to habitable condition; or
- recommend to Fannie Mae that the proceeds be applied to the UPB of the Mortgage Loan by submitting a request through the MAMP.

### **414.10** Property Restoration Requirements

All insurance loss proceeds will be held to reimburse the Borrower in increments for the cost of repairing the damage and restoring the Property. If the Property will be restored to habitable condition, the Servicer must:

- deposit all insurance loss proceeds in a Custodial Account meeting the requirements of Part V, Chapter 3: Custodial Accounts, to incrementally reimburse the Borrower for the cost of repairing the damage;
- require the Borrower to deposit, in the same Custodial Account, funds equal to the difference between (a) the Servicer's estimate of the total cost to repair and restore the Property to its pre-casualty condition, and (b) the amount of the insurance proceeds;
- for losses greater than \$75,000, prepare and have the Borrower execute the applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) for use with the 6000 series Loan Documents if



documented before the June 2019 Loan Document publication, or Insurance Loss Proceeds Collateral Agreement (Form 6639) for use with the 4000 series Loan Documents, specifying the terms and conditions under which the funds held in the Custodial Account will be released to the Borrower (Form 6615) is not required for Mortgage Loans with Loan Documents documented after the June 2019 Loan Document publication); and

submit a copy of any applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639) through the MAMP.

The Servicer may waive the above requirement that the Borrower deposit additional funds into the Custodial Account if (i) the Servicer deposits all insurance loss proceeds into the Custodial Account, and (ii) determines that the Borrower, Key Principals, and Principals have sufficient funds to repair and restore the Property when the insurance loss proceeds alone are insufficient.

Within 7 days of execution, the Servicer must submit through the MAMP copies of:

- any applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639);
- any Report of Multifamily Hazard Insurance Loss (Form 178); and
- if required and completed, a copy of the Multifamily Catastrophic Loss Inspection (Form 4261).

The Multifamily Catastrophic Loss Inspection (Form 4261) must be submitted through the MAMP within 7 days after the later of:

- the execution of any Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639); or
- the completion of the Multifamily Catastrophic Loss Inspection (Form 4261).

The Servicer must send to Multifamily Certification and Custody within 15 Business Days the original executed copy of any



Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639), and retain in its Servicing File the original:

- Multifamily Catastrophic Loss Inspection (Form 4261); and
- Report of Multifamily Hazard Insurance Loss (Form 178).

# **414.11** Commencement of Repair/Restoration Work

Before the Servicer disburses any funds to the Borrower for repair or restoration work the Servicer must:

- have any applicable executed Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639);
- have on deposit in a Custodial Account all insurance loss proceeds and, unless waived as provided above, sufficient Borrower funds to cover the estimated cost to complete the repair and restoration work;
- except in the case of minor casualties, have copies of all applicable building permits and other permits/authorizations required to carry out the repair and restoration work;
- except in the case of minor casualties, review (or have a qualified professional review) and approve any plans and specifications relating to the repair and restoration work;
- obtain from the Borrower the identities of each principal contractor, architect, and engineer who will be involved in the repair and restoration work, and be satisfied with their qualifications (including assurance each is appropriately licensed and bonded); and
- obtain evidence of builder's risk insurance, if required, in accordance with Part II, Chapter 5: Property and Liability Insurance, Section 501.02F: Builder's Risk Insurance.

Any emergency work required to protect the Property or correct a condition threatening the health or safety of the tenants must be undertaken immediately by the Borrower, even if the forgoing requirements have not been complied with.

### **414.12** Disbursements



# **414.12A** Prerequisites for Disbursement of Funds

Before disbursing funds, including the final disbursement, to the Borrower for each disbursement request, the Servicer must be satisfied that:

- all repair and restoration work has been completed in a good and workmanlike manner and in accordance with any applicable plans and specifications, as evidenced by submissions from the Borrower and, if applicable, by the Servicer's or a qualified professional's inspection of the completed work;
- all related invoices for items and services have been paid, unless the Borrower has satisfied any applicable preconditions of the Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639) for issuance of a joint check made payable to the Borrower and the Person owed funds;
- the necessary release of Lien or Lien waivers have been submitted by all contractors, and no mechanics' Liens, materialmen's Liens, or other Liens are outstanding that have not been acceptably bonded over; and
- the Borrower is not in default under any Loan Document, including the Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639).

# **414.12B** Disbursing Funds

The Servicer must approve and disburse funds related to each Borrower request in accordance with the Loan Documents, including any applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639). Funds must be disbursed no more frequently than once a month, unless:

- the Servicer determines that more frequent disbursements of funds are appropriate and can be managed effectively; or
- the disbursement is equal to or greater than \$10,000, or is the final disbursement of proceeds.



# **414.12**C Content of Disbursement Request

Each of the Borrower's disbursement requests must be in writing and must specify, at a minimum:

- the specific repair and restoration work for which reimbursement is being sought;
- the quantity and price of all materials (grouped by type or category) or specific replacement items (e.g., appliances) purchased; and
- the cost of all contracted labor or other services.

The Borrower's disbursement requests must be accompanied by:

- a Borrower certification that the repair and restoration work was completed in a good and workmanlike manner, in accordance with any plans and specifications previously approved by the Servicer, and in compliance with all applicable laws, ordinances, rules, and regulations of any governmental authority, agency, or instrumentality having jurisdiction over the Property;
- if the invoice exceeds the lesser of \$25,000 or 1% of the UPB:
  - a copy of the invoice detailing the covered materials, labor, or services;
  - payment evidence; and
  - a Lien release from each contractor, subcontractor, or materialman; and
- other relevant documentation required under the Loan Documents, including any applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639).

### **414.12D** Disbursement Amount

The amount of each disbursement (other than the final disbursement) may not exceed the lesser of:

(i) an amount equal to:



- the actual cost of the repair and restoration work covered by the disbursement request, or, if the work was done under a contract or subcontract pursuant to which other work remains to be done, an amount equal to 90% of the actual cost of the repair and restoration work covered by the disbursement request (i.e., a 10% holdback is required if the work under the applicable contract or subcontract has not been completed in full); plus
- 100% of the cost of any materials used, or to be used, in connection with the repair and restoration work, if at the time of the disbursement request, title to the materials has passed to the Borrower and the materials have been installed, or are being properly stored, on the Property; or
- (ii) an amount equal to the difference between:
  - the balance of the Collateral Agreement Custodial Account at the time of the disbursement request; and
  - the estimated cost of all remaining repair and restoration work at that time of the disbursement request.

#### **414.12E** Final Disbursement; Notice to Fannie Mae

Upon satisfactory completion of all required repair and restoration work, and satisfaction of all other applicable conditions of the Loan Documents, including any applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639), the Servicer must:

- disburse all remaining funds to the Borrower; and
- submit through the MAMP a final Report of Multifamily Hazard Insurance Loss (Form 178) to indicate that all work was satisfactorily completed.

#### **414.12F** Documentation in Servicing File

The Servicer must ensure that all actions taken with respect to



each Borrower disbursement request are appropriately documented in its Servicing File.

#### **414.13** Borrower's Failure to Diligently Pursue Repair

The Servicer must notify Multifamily Asset Management immediately if the Borrower fails to:

- proceed diligently with any necessary repair and restoration work;
- perform the work satisfactorily; or
- perform in accordance with the terms of the Loan Documents, including any applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639).

The Servicer's notice to Multifamily Asset Management must include a description of any steps that the Servicer is taking to resolve the situation.

#### **414.14** Reimbursement of Administrative Costs

If the insurance loss proceeds include funds specifically designated to defray administrative costs incurred by the mortgagee in connection with the casualty loss, the Servicer may reimburse itself from this designated amount for its actual, reasonable administrative costs. If no such provision is made by the insurer, the Servicer may not seek reimbursement for its administrative costs from the proceeds, nor may the Servicer seek reimbursement separately from the Borrower.

## **Section 415** Casualty Losses – Non-Performing Mortgage Loans

The Servicer must contact Multifamily Special Asset
Management before performing a casualty loss assessment on a
Property securing a Non-Performing Mortgage Loan. Fannie Mae will
determine whether the Servicer should proceed with the assessment,
and direct the Servicer accordingly. Any activity or action plans to
repair or restore the Property must be approved by Fannie Mae. All
insurance loss drafts and checks must be forwarded to Fannie Mae for
endorsement and disposition.

#### **Section 416** Credit Facilities and Bulk Deliveries



#### **416.01** General

Each Credit Facility and Bulk Delivery transaction is different, therefore the requirements in this Section may not apply to every transaction. The For specific requirements, the Servicer must refer to the applicable Master Credit Facility Agreement, Bulk Delivery Agreement, and other Loan Documents for specific requirements.:

- Master Credit Facility Agreement;
- Bulk Delivery Agreement; and
- other Loan Documents.

#### **416.02** Delegation of Decisions

Credit Facility and Bulk Delivery requests are delegated to the Servicer as described belowfollows.

#### **416.02A** Decisions and Actions Not Delegated

Decisions and actions that are not delegated to the Servicer for Mortgage Loans generally per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 402.01: Delegation of Decision-Making Authority, are also not delegated to the Servicer for Mortgage Loans in a Credit Facility or Bulk Delivery. Additionally, decisions and actions are not delegated to the Servicer when aif the request involves:

- amendments or changes to the Master Credit Facility Agreement, Bulk Delivery Agreement, or equivalent agreement, except for the Fannie Mae standard form (i) Amendment for Completion/Repair: extensions, and (ii) changes to the monthly Replacement Reserve deposits;
  - Completion/Repair extensions; and
  - changes to the monthly Replacement Reserve deposits;
- Supplemental Mortgage Loans or borrow-ups (future advances);
- additions, releases, or substitutions of collateral;
- revaluation and determination of the Allocable Facility Amount:



- Transfers/Assumptions;
- the interest rate conversion from variable to fixed on a SARM Loan;
- Interest Rate Hedge renewals or modifications;
- refinances;
- defeasance;
- payoffs/terminations;
- Ground Lease or operating lease modifications; or
- Property management or operator changes.
- a Bulk Delivery substitution; or
- a Credit Facility:
  - collateral release or substitution;
  - future advance and conversion;
  - revaluation and determination of the Allocable Facility Amount;
  - Interest Rate Hedge renewal or modification;
  - Defeasance;
  - payoff/termination;
  - Ground Lease or operating lease modification;
  - Transfer/Assumption;
  - Property manager or operator change;
  - re-underwriting assessment; or
  - Springing Debt Service Reserve.

## **416.02B** Decisions Delegated by the Delegated Transaction Form 4636 series

Decisions and actions covered by the Delegated Transaction Forms (Form 4636 series) are delegated to the Servicer as set forth inper the applicable Form 4636 series. For these requests, the Servicer must submit the completed Delegated Transaction Form (Form 4636 series) through the MAMP.

**416.02C** Other Delegated Decisions

Decisions and actions involving delegated to



the following Servicer for Mortgage Loans generally perPart V, Chapter 4: Asset Management: Loan Document Administration, Section 402.01: Delegation of Decision-Making Authority are also delegated to the Servicer for Mortgage Loans in a Credit Facility or a Bulk Delivery. Additionally, decisions and actions not covered by the Delegated Transaction Forms (Form 4636 series) are delegated to the Servicer to the extent delegated inper this Chapter for:

- Letter of Credit replacements and draws;
- Bulk Delivery Additions, Releases, and Supplemental Mortgage Loans;
- Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreements (Form 6639);
- endorsing insurance checks;
- extensions to complete Completion/Repairs;
- changes to the monthly Replacement Reserve deposits; and
- administering escrow accounts; and
- administering Collateral Agreements:
  - escrow accounts; and
  - Collateral Agreements.

If the Servicer has any questions regarding the need for Fannie Mae approvalis unsure if a decision is delegated, the Servicer must contact Multifamily Structured Asset Management prior tobefore proceeding.

#### **416.03** Approval Requests

If Fannie Mae approval is required, the Servicer must submit a request through the MAMPDUS Gateway. Any approval request must include or the Servicer's MAMP recommendation, any supporting documentation (including references to the relevant sections of the governing documents), and the Servicer's analysis supporting its recommendation.include:

- the Servicer's recommendation;
- any supporting documentation (including references to the



#### relevant sections of the governing documents); and

■ the Servicer's analysis supporting its recommendation.

#### **416.04** Credit Facility Release and Substitution Requests

To the extent of permitted by the provisions of the Master Credit Facility Agreement, Bulk Delivery Agreement, and the other Loan Documents, Borrowers may have the ability be allowed to release or substitute collateral. These requests must follow the provisions of the Loan Documents, and areapproval is not delegated under this Section to the Servicer.

The Borrower must initiate the release/substitution process by submitting a written request to the Servicer. Upon receipt, the Servicer must submit a release/substitution request package through the MAMP that includes:

- the Servicer's summary of the Borrower's release/substitution request, and its recommendation regarding approval of the requested release/substitution;
- any waiver requests and the Servicer's recommendation for approval of each waiver;
- when the Borrower expects the release/substitution to close;
- whether the Property meets all conditions to release/substitute and compliance tests (e.g., LTV, DSCR, geographic/asset concentration) stipulated in the Master Credit Facility Agreement, Bulk Delivery Agreement, and other Loan Documents;
- whether the Property meets all conditions and compliance tests (e.g., LTV, DSCR, UPB, geographic/asset concentration) per the applicable Loan Documents;
- for a Credit Facility, the release price and calculations (calculated according toper) the terms of the Master Credit Facility Agreement and other Loan Documents);
- for a Credit Facility, the remaining Allocable Facility Amount balance of the facility and each property after the release;
- the Allocable Facility Amount of each Property after the release;



- the amount of the release/substitution fees associated with the transaction to be collected;
- whether a prepayment or advance of funds is expected towill occur in connection with the transaction;
- the Structured Facilities Monitoring Spreadsheet (Form 4802) showing the Mortgage Loan level and collateral level data for the Structured Transaction both before and after the release/substitution occurs;
- third-party reports; and
- any other items required by the Loan Documents.

If a Letter of Credit or cash collateral is required as part of for the request, the Servicer must enter the Letter of Credit or cash collateral information in MSFMS. Any Letter of Credit must meet the requirements of comply with Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit. Original, and original Letters of Credit must be sent to Multifamily Structured Acquisitions.

If the request is approved, the Servicer must:

- submit its payoff calculations to Multifamily Structured Acquisitions;
- release the collateral from the MSFMS system; and
- if necessary, release, update, and verify any <u>associated</u> interest rate hedges <u>associated with the transaction</u> in MSFMS.

#### 416.05 Borrow-Up (Credit Facility Future Advance) and Conversion Requests

To the extent of permitted by the Master Credit Facility
Agreement, Bulk Delivery Agreement, and the other Loan Documents,
the Borrower may have the ability be allowed to obtain a Future
Advance. These requests must follow the requirements of the applicable Loan Documents, and approval is not delegated to the Servicer.:

- obtain a future advance (addition, borrow up, substitution advance, or tranche refinance); or
- convert a Mortgage Loan from variable to fixed rate.



The Borrower must initiate the Borrow-Up-process by submitting a written request to the Servicer. Upon receipt, the Servicer must submit a Borrow-Up-request package through DUS Gateway that includes including:

- the Servicer's summary of the Borrower's Borrow-Up request and its recommendation for approval;
- any waiver requests and the Servicer's recommendation for approval of each waiver;
- the amount of the Borrow-Uptransaction and the supporting underwriting spreadsheets and calculations (calculated per the terms of the Master Credit Facility Agreement and other Loan Documents);
- when the Borrower expects the Borrow-Uptransaction to close;
- whether the Property meets all conditions and compliance tests (e.g., LTV, DSCR, <u>UPB</u>, geographic/asset concentration) for a Borrow-Up per the applicable Loan Documents;
- a quote sheet;
- a-any applicable Sources and Uses statement;
- any applicable Interest Rate Hedge requirements;
- for a Credit Facility, the remaining Allocable Facility Amount balance of the Credit Facility and each Property after the Borrow-Up;
- the Allocable Facility Amount of each Property after the transaction;
- itemized Borrow-Up fees associated with the transaction;
- the Structured Facilities Monitoring Spreadsheet (Form 4802) showing the Mortgage Loan level and collateral level data for the Structured Transaction both before and after the release/substitutiontransaction occurs; and
- any applicable third-party reports; and
- any other items required by the Loan Documents.

416.06 Bulk Delivery Additions, Substitutions, and Releases

The Borrower may obtain additions, substitutions, and



#### releases if permitted per:

- the Bulk Delivery Agreement;
- the other Loan Documents; and
- Part III, Chapter 17: Structured Transactions.

# 416.06 Credit Facility Revaluations 416.07

<u>Credit Facility revaluations may occur per the Master Credit</u> Facility Agreement.

Revaluations of Credit Facilities and Bulk Deliveries occur as required by the Master Credit Facility Agreement and Bulk Delivery Agreement. Servicers must send recommended property cap rates and values along with supporting market information through the MAMP. Upon completion of Fannie Mae's review, the Servicer will be notified of the final cap rate determination and valuation. The ServicerLender must promptly notify the retain an BorrowerAppraiser to obtain a Capitalization Rate Derivation per Section 106 of the revised cap rates, Instructions for PropertyAppraisers values, (Allocable Facility AmountsForm 4827, LTV, and the failure to meet any compliance tests () if applicable). The Servicer must attach a copy of this Borrower correspondence to the request in the MAMP.:

- the Properties are being revalued with the intent to fund a new Mortgage Loan; or
- no new Mortgage Loan is being funded, but:
  - the previous valuation is more than 3 years old;
  - the Lender's recommended capitalization rate is more than 50 bps less than the previously approved cap rate; or
  - required by Fannie Mae.

After Fannie Mae notifies the Servicer of the final capitalization rate determination and valuation, the Servicer must:

- promptly notify the Borrower of the:
  - revised capitalization rates;



- Property values;
- Allocable Facility Amounts;
- LTV; and
- any failure to meet compliance tests, if applicable; and
- retain a copy of the Borrower notification in the Servicing File.

#### **416.08** Capitalization Rate Derivation

For any required Capitalization Rate Derivation, the Servicer

#### must:

- comply with Part II, Chapter 2: Valuation and Income, Section 202.02A: Appraiser Selection; and
- ensure the Capitalization Rate Derivation:
  - includes:
    - a capitalization rate derivation;
    - market analysis;
    - sales comparables; and
    - an analysis of property-specific characteristics;
  - describes capitalization rate pressures;
  - <u>evaluates factors applying upward or downward</u> pressure on capitalization rates, including:
    - market volatility;
    - investor demand;
    - property supply; and
    - rental growth projections;
  - is signed by the Appraiser;
  - includes the Appraiser's qualifications; and
  - is certified by the Appraiser to conform with current USPAP requirements.



# 416.07 Credit Facility Supplemental Mortgage Loans Not Permitted 416.09

Supplemental Mortgage Loans on Properties that are part of a Credit Facility or within a Bulk Delivery Credit Facility are not permitted unless expressly authorized under the Master Credit Facility Agreement, Bulk Delivery Agreement, and other Loan Documents. The Servicer must contact Multifamily Structured Asset Management before underwriting a Supplemental Mortgage Loan.

#### **416.10** Quarterly Monitoring and Re-Underwriting Assessments

## **416.10A** Quarterly Monitoring Reports (QMR)

All Credit Facilities must submit Quarterly Monitoring Reports through DUS 360 per Part V, Chapter 5: Surveillance, Section 503.02: Quarterly Financial Analysis of Operations.

#### 416.10B Credit Facilities with a Springing Debt Service Reserve Provision

A Credit Facility with a Springing Debt Service Reserve provision in the Master Credit Facility Agreement:

- is subject to additional quarterly monitoring in Section 416.10C; and
- may require a re-underwriting assessment.

## **416.10C** Monitored Debt Service Coverage Ratio

When required per Part V, Chapter 5: Surveillance, Section 503.02: Quarterly Financial Analysis of Operations, the Servicer must determine the Monitored Debt Service Coverage Ratio on an aggregate basis for all Mortgage Loans in the Collateral Pool, calculated as:

- the total for all Properties of:
  - trailing 3-month annualized net rental income; plus
  - trailing 3-month annualized other allowable income, if any; minus
  - trailing 12-month operating expenses; minus
  - annual Replacement Reserves;
- divided by the annual Actual Pay Debt Service Amounts for



#### all Mortgage Loans.

## **416.10D** Re-Underwriting Assessment Determination

A Credit Facility re-underwriting assessment is required if:

- the Monitored DSCR is below 1.10; or
- any other Trigger Event exists per the Master Credit Facility Agreement.

#### **416.10E** Re-Underwriting Assessments

For any Trigger Event, the Servicer must:

- immediately notify:
  - Fannie Mae in writing at:
    - Multifamily Structured Asset Management; and
    - mf structured transactions@fanniemae.com; and
  - the Borrower that all items required for re-underwriting per the Master Credit Facility Agreement and other Loan Documents are due within 10 days;
- <u>facilitate a meeting between the Servicer, Fannie Mae, and Borrower;</u>
- per the Master Credit Facility Agreement, the other Loan Documents, and the Guide:
  - conduct the re-underwriting assessment; and
  - remit the underwriting assessment results and supporting documents in the MAMP per Re-Underwriting Assessment Timing (22406);
- retain copies of:
  - the re-underwriting assessment; and
  - all supporting documents in the Servicing File; and
- submit a Non-Monetary Default Borrower Request in the MAMP if the Borrower fails to provide any required documents.



## 416.10F Re-Underwriting Assessment Timing

## Initial re-underwriting assessments occur as follows:

For a Credit Facility with	<u>Timing</u>
Monitored DSCR below 1.10	45 days after Quarterly Monitoring forms are due per Part V, Chapter 5: Surveillance, Section 503.02: Quarterly Financial Analysis of Operations.
Any other Trigger Event	45 days after the event.

## **416.11** Springing Debt Service Reserve

If a Master Credit Facility Agreement includes a Springing

Debt Service Reserve provision, the Borrower may be required to fund
a Debt Service Reserve Account.

#### Fannie Mae will:

- review all re-underwriting assessments and supporting documents; and
- notify the Servicer of the following additional requirements.

For a Credit Facility	<u>Requirements</u>
Without an existing Debt Service Reserve Account	<ul> <li>No further Borrower action is required if the         Aggregate Debt Service Coverage Ratio and re- underwriting submission comply with the:         - Master Credit Facility Agreement; and         - other Loan Documents.     </li> <li>The Borrower must fund a Debt Service</li> <li>Reserve Account with an initial DSCR Shortfall</li> <li>Amount in the event of a Springing Trigger.</li> </ul>



For a Credit Facility	Requirements
With an existing  Debt Service	• The Borrower must fund any additional DSCR Shortfall Amount.
Reserve Account	The Debt Service Reserve Account funds may
	be released if the Debt Service Reserve
	Release Test is met.

#### The Servicer must:

- notify the Borrower immediately of any Debt Service Reserve Account funding requirements;
- ensure the Borrower funds any Debt Service Reserve Account within 30 days;
- confirm all Debt Service Reserve Account deposits and notify Fannie Mae in writing at:
  - Multifamily Structured Asset Management; and
  - mf structured transactions@fanniemae.com;
- submit a Borrower Request in the MAMP to obtain Fannie Mae approval before releasing any Debt Service Reserve Account funds;
- notify the Borrower that re-underwriting assessment requirements supersede all activities in Part V, Chapter 5: Surveillance, Section 503: Financial Analysis of Operations; and
- submit a Monetary Default Borrower Request in the MAMP if the Borrower fails to meet any Debt Service Reserve Account funding obligations.

**416.08** Additional Information **416.12** 

For any issue not covered in this Section, or if the Servicer requires a more detailed explanation, contact Multifamily Structured Asset Management.

## **Section 417** Seniors Housing Properties



#### **417.01** General

The requirements in this Section may not apply to every Seniors Housing Mortgage Loan. The Servicer must refer to the Loan Documents for specific requirements.

## **417.02** Decisions and Actions Delegated and Not Delegated

Decisions and actions covered by the Delegated Transaction Form (Form 4636 series) are delegated to the Servicer as set forth in the applicable Form 4636 series or the Guide. For these requests, the Servicer must submit the completed applicable Form 4636 series through the MAMP. Decisions and actions for Seniors Housing Mortgage Loans regarding the following are not delegated to the Servicer:

- Seniors Housing expansions/conversions, including constructing additional units, substantial alterations,
   Seniors Housing Major Renovations, and Seniors Housing Minor Renovations;
- changes in the Seniors Housing operator;
- changes in Property management or management agreements;
- changes in licensing (<u>Note</u>: All licensing changes require an Opinion of Borrower's Counsel on Origination of Mortgage Loan (Seniors Housing Licensing) (Form 6450.SRS) confirming that all licensing requirements have been met);
- Seniors Housing operator Leases; and
- master leases.

If the Servicer has any questions regarding the need for Fannie Mae approval, the Servicer must contact Multifamily Seniors Housing Property Asset Management before proceeding.

#### **417.03** Approval Requests

The Servicer must refer to the Loan Documents and this Section to determine whether Fannie Mae approval is required for a particular request. If Fannie Mae approval is required, the Servicer must submit a request through the MAMP. Any approval request must include the Servicer's recommendation, any supporting documentation (including references to the relevant sections of the governing



documents), and the Servicer's analysis supporting its recommendation.

#### **417.04** Seniors Housing Expansion/Conversion Requests

Unless expressly permitted by the Loan Documents, requests by the Borrower for the construction of additional units, renovation, or expansion of a Seniors Housing Property, or a change in the overall percentage of one Seniors Housing type of unit (e.g., Independent Living, Assisted Living, or Alzheimer's/Dementia Care) into another are not delegated to the Servicer. The Borrower must request approval from the Servicer and Fannie Mae before proceeding, and Fannie Mae will consider these requests under the following parameters, conditions, and requirements:

#### **417.04A** Permitted Purpose

To allow for the construction of additional units on existing land, or the renovation and/or repositioning of existing units:

- a "Seniors Housing Major Renovation" is any physical improvement costing in excess of (i) \$20,000/unit, or (ii) \$3 million in total project costs; and
- a "Seniors Housing Minor Renovation" is any physical improvement that is not a Seniors Housing Major Renovation, but which increases the number of units, or converts one type of unit into another, unless expressly permitted by the Loan Documents.

#### **417.04B** Submission Requirements

Upon receipt of a Borrower Seniors Housing Expansion/Conversion Request, the Servicer must submit a written request through the MAMP, and include the following:

- Sponsor name and experience in operating seniors housing properties;
- Mortgage Loan performance;
- financial performance (including NCF and UPB history, and DSCR and LTV trends);
- pro forma financial statements:
- sources/uses of funds statement;



- project budget, scope, and plans;
- market study;
- construction contract and timeline;
- Servicer's monitoring plan;
- licensure issues;
- insurance; and
- general contractor and major subcontractors.

Fannie Mae will review the completed request, and approve or decline the request in its sole discretion.

#### **417.04C** Requirements and Monitoring

For a Seniors Housing Expansion/Conversion Request approved by Fannie Mae, the following requirements will apply:

#### ■ Escrow:

- the Borrower must escrow 25% of the estimated construction costs with the Servicer, who will administer the funds through a standard construction draw process; and
- the Borrower must demonstrate to the Servicer's satisfaction that it has sufficient liquid assets to complete the construction;
- Minimum DSCR during the expansion/conversion period cannot fall below 1.15x;
- Completion of construction must occur no later than 18 months from the date of commencement;
- Construction monitoring requirements will be set forth in the approval letter;
- Fannie Mae will charge a construction monitoring fee which does not cover the expenses associated with third-party inspections;
- Completion Guaranty (Form 6018, Form 6632, or Form 6633) and, if determined applicable by Fannie Mae, an Agreement and Assignment Regarding General Contractor's Contract (Form 6473), and an Omnibus Assignment of Contracts, Plans, Permits, and Approvals



(Form 6473), will be required;

- Fannie Mae will charge a change in use fee, and the Servicer may charge additional fees at its discretion, subject to approval by Fannie Mae;
- The Borrower must reimburse all legal costs incurred by Fannie Mae; and
- A fixed-price general construction contract provided by a general contractor, together with a payment and performance bond issued by an acceptable surety, will be required.

## **417.04D** Construction Completion Requirements

Within 60 days of completing any Seniors Housing Major Renovation or Seniors Housing Minor Renovation, the Borrower must deliver to the Servicer, and the Servicer must provide to Fannie Mae, the following:

- title endorsement to the existing mortgagee title policy, confirming that no mechanics' Liens, materialmen's Liens, or other Liens exist that have not been acceptably bonded over;
- final lien waivers from all contractors, architects, subcontractors, and material suppliers;
- copies of updated or newly issued certificates of occupancy;
- renewed licenses;
- confirmation in the form of an Opinion of Borrower's Counsel on Origination of Mortgage Loan (Seniors Housing Licensing) (Form 6450.SRS) that all licensing requirements have been met:
- certificate from the Borrower, architect, and contractor certifying to the Servicer, for the benefit of Fannie Mae, that the improvements:
  - are completed in accordance with the plans and specifications approved by Fannie Mae; and
  - meet the local zoning and planning restrictions, and all other governmental requirements;
- final inspection of completed Improvements;



- updated certified operating statement and rent roll for the Seniors Housing Property; and
- a survey showing any new Improvements on the Seniors Housing Property.

## **417.04E** Request Changes in Unit Count/Mix in the MAMP

Within 60 days of completion of any Seniors Housing Major Renovation or Seniors Housing Minor Renovation, the Servicer must request any applicable change in unit count and/or unit mix (IL, AL, ALZ) in the MAMP resulting from the renovation.

#### Section 418

Credit Enhancement Mortgage Loans and Multifamily Affordable Housing Properties

#### 418.01 Bond Transactions and Credit Enhancement Mortgage Loans

For any Credit Enhancement Mortgage Loan where Fannie Mae is providing credit enhancement for tax-exempt multifamily housing Bonds, the Borrower must provide the Servicer with a copy of the compliance monitoring statement required under the Bond Documents. If the Borrower's statement reflects noncompliance with the low- and moderate-income tenant occupancy requirements set forth in the Affordable Regulatory Agreement, or if the Borrower fails to provide the statement to the Servicer, the Servicer must notify Multifamily Asset Management, and retain the compliance monitoring statement in its Servicing File.

## **418.02** Compliance Issues Relative to Bond Credit Enhancement Transactions

The Servicer must monitor the Interest Reserve Requirement, if any, under the Bond Trust Indenture with respect to each Credit Enhancement Mortgage Loan.

The Servicer must monitor the rating of the institution in which the accounts under any Cash Management, Security, Pledge, and Assignment Agreement are held, and must require the Borrower to move the accounts if the rating no longer meets Fannie Mae's requirements as provided in Part V, Chapter 3: Custodial Accounts.

## **418.03** Monitoring Compliance; Notification of Noncompliance

#### **418.03A** Affordable Regulatory Agreement

At least once in each calendar year (and more often if directed



by Fannie Mae), the Servicer must obtain a Borrower certification that the Property is in full compliance with:

- the rules qualifying the interest on the Bonds for exclusion from gross income for federal income tax purposes pursuant to the Internal Revenue Code; and
- the requirements of the Affordable Regulatory Agreement.

The Servicer must review the Borrower certificate, and if the Property does not comply with all applicable regulatory requirements, the Servicer must immediately notify Multifamily Asset Management. Neither Fannie Mae nor the Servicer is responsible for determining or ensuring the Borrower's compliance under the Affordable Regulatory Agreement.

## **418.03B** Default Notice for Failure to Comply with the Bond Documents

The Servicer must promptly notify Multifamily Asset
Management, the Borrower, the Bond Trustee, and the Issuer in writing
of any default by a Borrower with any provision of any Loan Document,
Reimbursement Agreement, Security Agreement, the Affordable
Regulatory Agreement, or other Loan Document, Credit Enhancement
Document, or Bond Document.

The Servicer must promptly forward to Multifamily Asset Management copies of any notices received from a Borrower, Bond Trustee, Issuer, or any other party regarding any default by a Borrower, and shall maintain ongoing contact with Fannie Mae regarding the status of the Credit Enhancement Mortgage Loan by submitting a Non-Monetary Default Borrower Request in the MAMP.

#### **418.04** Multifamily Affordable Housing (MAH) Properties

The Servicer must collect annual compliance documentation in the form of:

- for an MAH Property with Sponsor-Initiated Affordability, certifications from the Borrower and Administering Agent of compliance with the Sponsor-Initiated Affordability Agreement; or
- for any other MAH Property, the annual recertification of the Property's compliance with the Affordable Regulatory Agreement from the agency or entity that imposed any applicable rent or occupancy restrictions or, if not available, an explanation of why it is not available.



The Servicer must immediately submit a Non-Monetary Default Borrower Request in the MAMP to notify Multifamily Asset Management if this documentation reveals any event of default or noncompliance with the applicable:

- Sponsor-Initiated Affordability Agreement; or
- Affordable Regulatory Agreement.

The Servicer must retain the annual compliance documentation in its Servicing File.

#### **418.05** Low-Income Housing Tax Credits

If the Property is subject to a Low-Income Housing Tax Credit allocation, the Servicer must obtain, at least once in each calendar year (and more often if directed by Fannie Mae):

- copies of the tax and other compliance forms specified in Part III, Chapter 7: Multifamily Affordable Housing Properties; and
- Borrower certifications of the Property's compliance with the requirements of the Internal Revenue Code regarding Low-Income Housing Tax Credits; and
- if the Low-Income Housing Tax Credits have not yet been syndicated, monthly reports from the Borrower detailing the Borrower's progress in syndicating the tax credit allocation until the syndication is completed.

If the Borrower indicated that the Property does not comply with all applicable regulatory requirements, the Servicer must immediately submit a Non-Monetary Default Borrower Request in the MAMP. Neither Fannie Mae nor the Servicer is responsible for determining or ensuring the Borrower's compliance with Low-Income Housing Tax Credit requirements. The Servicer also must comply with the information requirements of Part III, Chapter 7: Multifamily Affordable Housing Properties.

#### **418.06** Enhanced Resident Services

The Borrower must annually recertify the Property and submit each recertification to the Servicer within 75 days following the end of each Loan Year. The Servicer must collect the initial certification and each recertification in the Servicing File. For any recertification failure, the Servicer must promptly notify Fannie Mae through the MAMP, or



such other method indicated by Fannie Mae. Additionally, the Servicer must promptly submit a Non-Monetary Default Borrower Request in the MAMP if the Property later achieves recertification. After recertification, the Servicer must then resume annual compliance monitoring at the end of each subsequent Loan Year.

## **418.07** Expanded Housing Choice

A Mortgage Loan with an Expanded Housing Choice pricing incentive requires additional monitoring.

#### Fannie Mae:

- may conduct fair housing testing for a Mortgage Loan delivered with an Expanded Housing Choice pricing incentive; and
- will notify the Servicer if the fair housing testing or any other information reveals the Borrower is not complying with Part III, Chapter 23: Expanded Housing Choice; and may, for any noncompliance:
  - require the Borrower's employees to complete fair housing training;
  - require Supplemental Annual Loan Agreement Certification (Expanded Housing Choice) (Form 6620.Supplemental.Expanded Housing Choice); and/or
  - notify the Borrower it is in default.

#### The Servicer must:

- if not already received by April 15, notify the Borrower a rent roll or rent schedule dated as of December 31st of the previous year is due 120 days after the end of the prior calendar year;
- within 120 days after each December 31:
  - obtain from the Borrower the rent schedule or rent roll dated as of December 31 of the previous year; and
  - submit a Streamlined Rent Roll (Form 4241);
- comply with the following table for any Loan Document defaults; and
- retain in its Servicing File, copies of:



- Form 4241;
- any required Form 6620.Supplemental.Expanded Housing Choice; and
- any Borrower notices, including Reservation of Rights Letters (Form 4804), required for:
  - fair housing training; or
  - Loan Document defaults.

If the Borrower	The Servicer must
Fails to submit the December 31 rent roll or rent schedule for the prior year within 120 days after the end of the calendar year	send the Borrower a     Reservation of Rights Letter     (Form 4804) specifying:         - the rent roll must be         submitted within 30 days; and         - if not submitted, the         Expanded Housing Choice         Monetary Penalty will be due         per the Modification to         Multifamily Loan and Security         Agreement (Expanded         Housing Choice) (Form         6273); and         • submit a Non-Monetary         Default Borrower Request in         the MAMP.
Fails to submit the December 31 rent roll or rent schedule for the prior calendar year within the 30-day period after receipt of the Reservation of Rights Letter	collect from the Borrower and remit to Fannie Mae the Expanded Housing Choice Monetary Penalty per Form 6273.



If the Borrower	The Servicer must
Fails to submit any required Expanded Housing Choice Monetary Penalty per Form 6273	<ul> <li>send the Borrower a Reservation of Rights Letter (Form 4804) stating the Borrower is in default; and</li> <li>submit a Non-Monetary Default Borrower Request in the MAMP.</li> </ul>
Fails a first round of fair housing testing	ensure the Borrower conducts fair housing training for its employees per Fannie Mae's requirements.
Fails a second round of fair housing testing	<ul> <li>ensure the Borrower conducts additional fair housing training for its employees per Fannie Mae's requirements; and</li> <li>require the Borrower to submit Supplemental Annual Loan Agreement Certification (Expanded Housing Choice) (Form 6620.Supplemental.Expanded Housing Choice).</li> </ul>
Fails to complete any required fair housing training within the required time frame	• send the Borrower a Reservation of Rights Letter (Form 4804) stating the Borrower is in default; and • submit a Non-Monetary Default Borrower Request in the MAMP.
Fails to provide any required Supplemental Annual Loan Agreement Certification (Expanded Housing Choice) (Form 6620.Supplemental.Expanded Housing Choice)	<ul> <li>send the Borrower a Reservation of Rights Letter (Form 4804) stating the Borrower is in default; and</li> <li>submit a Non-Monetary Default Borrower Request in the MAMP.</li> </ul>



If the Borrower	The Servicer must		
Fails a third round of fair housing testing	<ul> <li>ensure the Borrower enters into a remedial housing plan with Fannie Mae per Form 6273; and</li> <li>submit a Non-Monetary Default Borrower Request in the MAMP.</li> </ul>		
Is otherwise determined not to be complying with Part III, Chapter 23: Expanded Housing Choice	<ul> <li>send the Borrower a Reservation of Rights Letter (Form 4804) stating the Borrower is in default; and</li> <li>submit a Non-Monetary Default Borrower Request in the MAMP.</li> </ul>		

## **418.08** HAP Contract Approval and Releasing Restabilization Reserve

The Servicer is delegated the authority to:

- approve renewal of the HAP Contract during the Mortgage Loan term; and
- waive any Loan Document provision requiring the HAP Contract to be fully funded by HUD through the Mortgage Loan Maturity Date.

The Servicer must submit through the MAMP a copy of the renewed HAP Contract, and retain a copy in the Servicing File, together with any Borrower request for release of the Restabilitzation Reserve.

Most disbursements from a Restabilization Reserve require Fannie Mae's approval. The Servicer is delegated the authority to approve, without Fannie Mae's consent, a Borrower request for a final disbursement, provided:

- the Servicer has received written evidence that the HAP contract has been extended by HUD through the Maturity Date with no material changes to its terms;
- no default has occurred and is continuing under the Loan Documents; and



the Loan Documents explicitly allow a final disbursement under these conditions.

## **Section 419** Sponsor-Dedicated Workforce Housing Properties

Per the Loan Documents, to monitor an SDW Housing Property, the Servicer must:

- annually review the rent roll and sufficient lease files to determine Borrower compliance with the required rent restrictions;
- receive an annual Supplemental Annual Loan Agreement Certification (Sponsor-Dedicat ed Workforce Housing)
   (Form 6620.Supplemental.SDW) from the Borrower, and:
  - attest to the Form 6620.Supplemental.SDW that the Servicer has audited the rent roll for Borrower compliance with the required rent restrictions; or
  - for any noncompliance:
    - notify the Borrower of the default; and
    - submit a Non-Monetary Default Borrower R equest in the MAMP;
- retain in the Servicing File, copies of:
  - Modifications to Multifamily Loan and Security Agreement (Sponsor-De dicated Workforce Housing) (Form 6271.SDW);
  - Modifications to Security Instrument (Sponsor-Dedicated Workforce Housing) (Form 6325);
  - Property rent restrictions;
  - annual rent roll and compliance results; and
  - any Loan Document default Borrower notices; and
- per the Sponsor-Dedicated Workforce (SDW) Housing Job Aid, annually submit copies of the:
  - Form 6620.Supplemental.SDW and Servicer attestation; and
  - Property rent roll.



#### Section 420

#### MH Communities with Tenant Site Lease Protections

A Mortgage Loan secured by an MH Community with Tenant Site Lease Protections requires additional monitoring. The Loan Documents require the Borrower to annually provide:

- a certified copy of the current residential MH Site Lease form:
- a certified copy of the notice sent to all MH Site Lease tenants if the Tenant Site Lease Protections were implemented by the Rules and Regulations;
- copies of any actual MH Site Lease requested by Lender; and
- a certification of the actual percentage of MH Site Leases that include all required Tenant Site Lease Protections, and that no material changes have been made to the MH Community's rules and regulations or to the MH Site Lease form.

#### The Servicer must:

- confirm the Borrower's ongoing compliance with the Loan Documents:
- if the Tenant Site Lease Protections were implemented within the MH Community's rules and regulations, confirm:
  - the rules and regulations contain all Tenant Site Lease Protections and are publicly posted in the MH Community; and
  - each MH Site Lease tenant received written notice of all Tenant Site Lease Protections added to the rules and regulations;
- if the Tenant Site Lease Protections were implemented within the MH Site Lease:
  - confirm the MH Site Lease form includes:
    - all Tenant Site Lease Protections; and
    - the required percentage of MH Site Leases (i.e., 25%, 50%, or 100%) are covered by the Tenant Site Lease Protections; and
  - annually audit at least 25% of the minimum percentage



of MH Site Leases required per the Loan Documents (i.e., 25%, 50%, or 100%) to ensure all Tenant Site Lease Protections are included;

- determine whether the Borrower complied with all terms of the Tenant Site Lease Protections (e.g., the Borrower only raised MH Site Lease rents after required notice);
- retain the review of the Borrower's certification and audit results in the Servicing File; and
- notify Multifamily Loss Mitigation if the Borrower fails to certify compliance, or the MH Site Lease audit discloses potential noncompliance.

## **Section 421** Single Asset Entity Conversion

If the Loan Documents require the Borrower to convert into a single asset entity that complies with Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302.01: Single-Asset Entity by a certain date, the Servicer is delegated the authority to:

- grant a one-time extension of the date by up to 90 days;
- determine whether the extension requires an amendment to the Multifamily Loan Agreement; and
- document it in any form that the Servicer deems legally enforceable.

#### **Section 422** Loan Document Amendments

Provided the change does not violate the Disclosure Documents or the Fannie Mae Master Trust Agreement, the Servicer is delegated the authority to modify the Loan Documents for a Portfolio Mortgage Loan to:

- align with the approved terms for a Supplemental Mortgage Loan; or
- cross-default and/or cross-collateralize the Portfolio Mortgage Loan with a subsequent Mortgage Loan.

This delegated authority includes executing all Loan Document amendments related to:

a subordinate lien, including any Mortgage Loan



modification for a Supplemental Mortgage Loan with a confirmed Commitment;

- cross-collateralizing and/or cross-defaulting a Pre-Existing Mortgage Loan with a Supplemental Mortgage Loan with a confirmed Commitment; and
- cross-collateralizing and/or cross-defaulting a first Lien Mortgage Loan with another first Lien Mortgage Loan (e.g., for a phased property), provided that cross-collateralization and cross-default were contemplated in the Loan Documents for the Portfolio Mortgage Loan and there is a confirmed Commitment for the second first Lien Mortgage Loan.

## **Section 423** Maturing Mortgage Loans

#### **423.01** Written Policy

The Servicer must establish a written policy for maturing Mortgage Loans, including:

- overall monitoring responsibilities;
- criteria for handoffs between functional groups (e.g., Special Asset Management, Special Credits, etc.);
- Fannie Mae reporting;
- sending Borrower maturity notification letters; and
- determining the Mortgage Loan's refinance eligibility.

#### **423.02** Refinance Eligibility

On a monthly basis, beginning at least 24 months before each Mortgage Loan's Maturity Date, the Servicer must evaluate the Property's operating performance to determine the likelihood that the Mortgage Loan UPB can be refinanced based on the current cap rate, and the DSCR and NCF from the Property's most recent annual financial statement.

Participants from the Servicer's underwriting, asset management, portfolio management, and finance teams must coordinate to categorize each Mortgage Loan as either:

"Meets Criteria" = the Mortgage Loan qualifies for refinancing based on the currently published underwriting



criteria of Fannie Mae or a third party; or

■ "Does Not Meet Criteria" = the Mortgage Loan does not qualify for refinancing based on the currently published underwriting criteria of Fannie Mae or a third party.

For each Mortgage Loan categorized as "Does Not Meet Criteria", the Servicer must:

- review the Property's quarterly operating statements and analyze the operating expenses (especially repairs & maintenance and capital expenses) to assess whether the Borrower is prudently managing the Property; and
- work with the Borrower and Fannie Mae to ensure the Borrower has a reasonable payoff plan.

#### **423.03** Borrower Communications

The Servicer must send the following maturity notification letters to the Borrower:

- 18 months before the Mortgage Loan Maturity Date, send the first maturity notification letter notifying the Borrower of the upcoming Maturity Date (18 Month Notice to Borrower Choice Refinance Loans (Form 4217)).
- 12 months before the Mortgage Loan Maturity Date, send the applicable second maturity notification letter (12 Month Notice to Borrower Marketing Oriented Choice Refinance Loans (Form 4218) or 12 Month Notice to Borrower In Place Loans (Form 4219)):
  - notifying the Borrower of the upcoming Maturity Date;
  - providing Servicer contact information; and
  - requesting a detailed payoff plan.
- 6 months before the Mortgage Loan Maturity Date, send the 6 Month Notice to Borrower – In Place Loans (Form 4220):
  - notifying the Borrower of the upcoming Maturity Date;
  - requesting proof of a payoff plan (e.g., a commitment letter from another lender or sale contract); and
  - advising the Borrower that the Mortgage Loan will be in



#### default if not paid off or refinanced.

Within 6 months of the Maturity Date, the Servicer must aggressively pursue a maturity solution for any Mortgage Loan that "Does Not Meet Criteria" until the Borrower provides written proof of a payoff plan, which may include a certified escrow letter, contact information for the new lender with appropriate follow-up by the Servicer, or other reasonable evidence.

#### **423.04** Fannie Mae Communications

On the first Business Day of each month, the Servicer must submit a Maturing Loan Report using the mandated template to Multifamily Maturity Management with information on each Mortgage Loan maturing within the next 24 months (or advising that no Mortgage Loans are maturing within the next 24 months), and categorizing each as "Meets Criteria" or "Does Not Meet Criteria" in the Performance Rating column. The Servicer must also update the Maturing Loan Report as new information becomes available with each monthly submission.

The comments section of the Maturing Loan Report must include, at a minimum:

- a report of discussions with the Borrower (e.g., potential new lender, term of new loan, proof of payoff plan received);
- the anticipated payoff date; and
- whether the Mortgage Loan is likely or not to refinance, and the rationale.

All other Fannie Mae notices related to maturing Mortgage Loans, including default notices, must be sent to Multifamily Maturity Management.



# **Chapter 5** Surveillance

## Section 501

## Generally

## ✓ Requirements

#### You must:

- Monitor the Property by:
  - inspecting it;
  - evaluating its financial performance; and
  - submitting the inspection and evaluation results per this Chapter.
- Ensure the Borrower manages and maintains the Property per the Loan Documents.

## **Section 502** Property Inspections

#### **502.01** Forms

## Requirements

For all Property inspections, you must use

- the MBA Standard Inspection Form, or
- if a Catastrophic Event has occurred, the Multifamily Catastrophic Loss Inspection form (Form 4261).

For a Green Rewards Mortgage Loan, you must also submit the Green Rewards Verification Inspection Form (Form 4221) per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 408.03I: Green Rewards Efficiency Measure Verification.

## Operating Procedures

On the MBA Standard Inspection Form, you must:

- 1. Select the "Fannie Mae Inspection" option on the Tools tab.
- 2. Complete the tabs per the following table.



Tab to be Completed	Additional Tab Requirements
General Information	Include the inspector's first and last name.
Physical Condition & Deferred Maintenance	
Photos	Ensure photos of surrounding neighborhoods are included in addition to the minimum interior and exterior photo requirements per Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocol.
Rent Roll	<ul> <li>Ensure the rent roll is:</li> <li>obtained during the site inspection; and</li> <li>retained in your Servicing File and available to Fannie Mae upon request.</li> </ul>
Management Interview	
Multifamily	
Fannie Mae Assessment Addendum	<ul> <li>Ensure all Seller/Servicer Certification information is</li> <li>completed, and</li> <li>reviewed and certified by someone other than the actual inspector.</li> </ul>
Senior Supplement	Required only for a Seniors Housing Property.

3. Assign an overall rating per the MBA Rating Scale Definitions.

# **502.02** Property Condition Concerns





If the Property has	You must
<ul> <li>an inspection rating of 4 or 5 per the Fannie Mae Assessment Addendum tab of the MBA Standard Inspection Form;</li> <li>incomplete repairs per the specified timing in the Loan Documents;</li> <li>significant deferred maintenance; or</li> <li>non-significant deferred maintenance that was not corrected within 12 months after notifying the Borrower.</li> </ul>	<ul> <li>Inform Multifamily Inspections and Multifamily Loss Mitigation: <ul> <li>promptly after receiving notice of any Life Safety Issues per Part V, Chapter 5:</li> <li>Surveillance, Section 502.06F: Life Safety Issues; or <ul> <li>otherwise within 10 Business Days after becoming aware.</li> </ul> </li> <li>Reinstate any suspended Completion/Repair Escrow or Replacement Reserve if the Property inspection rating is 4 or 5, unless the rating resulted from a casualty loss (see Part V, Chapter 5: Surveillance, Section 502.06E: Collateral Analysis).</li> <li>Inspect the Property as necessary to ensure the Borrower resolves any deferred maintenance.</li> <li>Regardless of whether the Mortgage Loan is on a Watchlist, submit a request to Multifamily Loss Mitigation before ordering a PCA (excluding regularly-scheduled PCAs required per the Loan Documents).</li> <li>Identify the appropriate Fannie Mae risk rating</li> </ul> </li> </ul>
	per Part VI, Chapter 1: Watchlist Management.

## **502.03** Property Inspection Protocol



Property inspection frequency is based on

- the current Fannie Mae risk rating,
- the Mortgage Loan amount at the Mortgage Loan Origination Date, and
- a full inspection (unless otherwise noted) of the specified percentage of units per the Property Inspection Protocol table criteria, but not:
  - · less than the specified minimum; and



more than the specified maximum.

If the scheduled inspection due date is within 6 months of the Maturity Date, the MAMP inspection due date will be set to 6 months before the Maturity Date.

# **>** Operating Procedures

## You must complete:

- a post-origination Property inspection within 12 months; and
- additional Property inspections per the Inspection Frequency column in the following table.

Property Inspection Protocol						
If the original Mortgage Loan Amount is greater than \$30 million						
	Fannie Mae	Inspection	Number of Units to Inspect		Minimum # of Photos Total	
Туре	Risk Rating	Frequency	%	Min/Max	(Interior/Exterior)	Inspector
All Mortgage Loans	• Pass, • Pass- Watch, or • Special Mention	Annual	5%	5/15	20 (5/15)	• Third- Party, or • In-House
	Substandard	Annual	10%	10/20	20 (5/15)	In-House Only
If the original Mortgage Loan Amount is greater than \$6 million and less than or equal to \$30 million						
NOTE: DSCR is	per the most r	ecent annua	l finan	cial statem	ent submitted to Fa	annie Mae.
Fannie Mae		Inspection	Number of Units to Inspect		Minimum # of Photos Total	
Туре	Risk Rating	Frequency	%	Min/Max	(Interior/Exterior)	Inspector
Most Recent Inspection rating of 4 or 5	All Ratings	Annual	10%	10/20	20 (5/15)	In-House Only



Property Inspection Protocol						
• Seniors Housing, or • Rent- Stabilized	• Pass, • Pass- Watch, or • Special Mention	Annual	5%	5/15	20 (5/15)	• Third- Party, or • In-House
	Substandard	Annual	10%	10/20	20 (5/15)	In-House Only
Maturing	All Ratings	Within 12 months before Maturity Date	Per applicable Mortgage Loan type.			
All Others	• Pass, Pass-Watch, or Special Mention; and • DSCR ≥ 1.35, or Co- op DSCR ≥ 1.00.	• Every 2 years; or • Annual if required annual Operating Statement not received.	5%	5/15	20 (5/15)	• Third- Party, or • In-House
	• Pass, Pass-Watch, or Special Mention; and • DSCR < 1.35, or Co- op DSCR < 1.00.	Annual	5%	5/15	20 (5/15)	• Third- Party, or • In-House
	Substandard	Annual	10%	10/20	20 (5/15)	In-House Only
If the original Mortgage Loan Amount is \$6 million or less						
NOTE: If the Property has 10 units or less, at least 2 units must be inspected.						
	Fannie Mae	Inspection	Number of Units to Inspect		Minimum # of Photos Total	
Туре	Risk Rating	Frequency	%	Min/Max	(Interior/Exterior)	Inspector



Property Inspection Protocol						
Most Recent Inspection rating of 4 or 5 (unless Delivered Mortgage Loan Amount was less than \$750,000)	All Ratings	Annual	10%	10/20	20 (5/15)	In-House Only
• Seniors Housing, or • Rent- Stabilized	• Pass, • Pass Watch, or • Special Mention	Annual	5%	5/15	20 (5/15)	• Third- Party, or • In-House
	Substandard	Annual	10%	10/20	20 (5/15)	In-House Only
Maturing	All Ratings	Within 12 months before Maturity Date	Per applicable Mortgage Loan type.			
All Others	• Pass, Pass-Watch, or Special Mention; and • Delivered Mortgage Loan Amount < \$750,000.	Walk Around every 5 years	N/A	N/A	15 (exterior photos only)	• Third- Party, or • In-House
	• Pass, Pass-Watch, or Special Mention; and • Delivered Mortgage Loan Amount ≥ \$750,000.	Every 2 years	5%	2/5	15 (5/10)	• Third- Party, or • In-House
	Substandard	Annual	10%	2/5	15 (5/10)	In-House Only

# **502.04** Scheduling and Submissions

502.04A Scheduling



# Operating Procedures

#### You must:

- ensure Property inspections are performed per Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocol; and
- allow enough time to submit the Property inspection form by the MAMP submission due date.

# Guidance

For scheduling efficiency, you may request 1 automatic extension for up to 60 days after the submission due date if:

- you request it before the original submission due date using the "Modification Request" tab within the MAMP;
- the Fannie Mae risk rating is not Substandard;
- the most recent Property inspection rating is:
  - 1 or 2; or
  - 3 if the inspection is less than 1 year old; and
- the extended MAMP submission due date is at least 6 months before the Maturity Date.

#### **502.04B** Submissions

**>** Operating Procedures

#### You must:

- Submit via the MAMP:
  - the origination inspection form:
    - within 45 days after Fannie Mae purchases the Mortgage Loan and loads it into the MAMP; and
    - no later than the MAMP submission due date; and
  - each subsequent inspection form:
    - within 60 days after the Property inspection date; and
    - no later than the MAMP submission due date.



Timely resolve all issues Fannie Mae identifies.

# Guidance

See the MAMP User Guide for Property inspection form submission information.

If the Property inspection is inadequate, Fannie Mae may require you to obtain a new inspection at your expense.

#### **502.05** Property Inspectors

#### **502.05A** Qualifications

### ▼ Requirements

You must ensure any inspector:

- Meets 1 of the following:
  - 1. Is certified by the:
    - Real Estate Assessment Center for HUD as a Certified Home Inspector;
    - American Society of Home Inspectors (ASHI); or
    - International Association of Certified Home Inspectors (InterNACHI).
  - 2. Is a:
    - state-certified home inspector;
    - registered architect; or
    - civil engineer.
  - **3.** Successfully completed other acceptable training, including the MBA's School of Multifamily Property Inspections.
- Has the following minimum experience:

Туре	Minimum Inspection Experience
Senior Housing Mortgage Loans	10 seniors housing property inspections
Substandard Fannie Mae Risk Rating	25 multifamily property inspections



Туре	Minimum Inspection Experience
All Others	10 multifamily property inspections

### **502.05B** Third Parties

### Requirements

Any third-party inspector must:

- have no financial interest in the inspected Property;
- have experience in the Property's market; and
- not reassign responsibility to another Person without your approval.

# Guidance

Fannie Mae reserves the right, in its sole discretion, to notify you that a third-party inspector or inspection firm is unacceptable.

#### **502.06** Content

#### 502.06A Unit Selection

# **%** Operating Procedures

When selecting units:

- The inspector, not the Property manager, must select and inspect the interior of:
  - all "down" units (i.e., units that cannot currently be rented in the normal course of business);
  - at least the minimum, but no more than the maximum, number of occupied and vacant units per Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocol; and
  - units where at least:
    - 50% are vacant (if existing); and
    - 2 are occupied.
- If substantial physical concerns exist, the inspector may inspect more than the maximum number of units per Part V, Chapter 5:



Surveillance, Section 502.03: Property Inspection Protocol.

- If a Property has Non-Contiguous Parcels or scattered sites, on each parcel or site:
  - inspect all buildings;
  - allocate the number of units to inspect in the same proportion as the total Property units; and
  - randomly select the units to be inspected.

#### **502.06B** Photos

# **%** Operating Procedures

You must submit at least the minimum number of photos per Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocol with the Property inspection form. The photos must include views and captions of the Property's

- signage,
- frontage,
- site office and clubhouse (if applicable),
- amenities.
- typical building front,
- apartment interior,
- major building systems,
- deferred maintenance and life safety items,
- extraordinary repair or capital expenditure items, and
- all critical or substantial issues per the inspection report.

#### **502.06C** Interviews

# **%** Operating Procedures

Except for walk-around inspections, you must interview the Property manager and other on-site staff to:

- ascertain the Property's condition and performance; and
- confirm all life safety and deferred maintenance items per the most



recent Property inspection were corrected.

### **502.06D** Market Analysis

**%** Operating Procedures

#### You must evaluate:

- the Property's neighborhood, submarket, and market to determine material shifts in economic and real estate conditions; and
- competitive properties to determine any changes in the Property's competitive position since
  - initial underwriting, or
  - the most recent Property inspection.

### **502.06E** Collateral Analysis

**%** Operating Procedures

If the Property needs repairs or maintenance:

Step	Activity	You must
1	Notify Borrower	<ul> <li>Within 45 days after the inspection date,</li> <li>identify the repair or maintenance issues,</li> <li>include any photos, and</li> <li>direct the Borrower to timely complete the work.</li> <li>Use Form 4830 if the Property inspection rating is 3, 4, or 5.</li> </ul>
2	Follow Up	<ul> <li>Follow up to ensure the Borrower responded and the work was successfully completed. If not: <ul> <li>notify the Borrower;</li> <li>notify Multifamily Inspections; and</li> <li>include your resolution recommendation.</li> </ul> </li> <li>Use Form 4831 or Form 4832 if the Property inspection rating is 3, 4, or 5.</li> </ul>



Step	Activity	You must
3	Set Rating	Set the Property inspection overall rating to 4 (or 5 depending on the severity or other existing issues) if:
		<ul> <li>10% or more of the units are down for any reason; or</li> <li>there is casualty damage equal to</li> <li>25% of the current UPB, or</li> <li>\$1 million.</li> </ul>

# Guidance

Setting the Property inspection rating to 4 or 5 does not:

- add the Mortgage Loan to Fannie Mae's Watchlist;
- require an Action Plan; or
- require Replacement Reserves reinstatement if the rating is the result of a casualty loss unless you
  - identify other performance issues that increase credit risk, or
  - expect insufficient funds or insurance proceeds to restore the Property to its original condition.

#### **502.06F** Life Safety Issues

## ▼ Requirements

If a third-party inspector identifies any Property issues that would be rated 3, 4, or 5 per the "Life Safety" section of the Fannie Mae Assessment Addendum of the MBA Standard Inspection Form, the inspector must notify you within 3 Business Days after completing the inspection.

### **502.07** Quality Control

#### **502.07A** Program

▼ Requirements

You must:



- Have a quality control program to annually review the Property inspections performed by third-party inspectors.
- Ensure every Property inspection complies with Fannie Mae's requirements before submission.
- Show evidence and results of your quality control program if requested.

### **502.07B** Inspection Form Retention

**%** Operating Procedures

#### You must

- retain all Property inspection forms in your Servicing File for at least 2 inspection cycles, and
- submit them upon request.

### **502.07C** Additional Inspections and Fees



Property inspections are a regular asset management responsibility, and additional Property inspections may be required if circumstances warrant.

You may charge the Borrower a reasonable Property inspection fee if it is

- permitted per the Loan Documents or other written Borrower agreement, and
- not prohibited by Fannie Mae.

# **Section 503** Financial Analysis of Operations

#### **503.01** Reporting



You must submit quarterly and annual Financial Analysis of Operations reports (Form 4254 or Form 4254.Seniors) for each Property.





You must submit all Financial Analysis of Operations reports via the MAMP. To ensure the operating statements are complete:

Item	Activity	You must
1	Verify	Verify the operating statements reflect the Property's actual physical occupancy based on the most recent quarter-end rent roll.
2	Provide	<ul> <li>Provide actual expenses, normalizing</li> <li>for seasonal variations, and</li> <li>certain expenses including, but not limited to,</li> <li>real estate taxes,</li> <li>property casualty insurance,</li> <li>Replacement Reserves, and</li> <li>property management fees.</li> </ul>



Item	Activity	You must
3	Comment	Comment if:
		<ul> <li>the Mortgage Loan is on Fannie Mae's Watchlist; or</li> <li>per Form 4254.DEF there is a 20% or greater variance, either higher or lower, from the same reporting period in the prior year for <ul> <li>Effective Gross Income,</li> <li>Total Operating Expenses,</li> <li>Capital Expenditures, or</li> <li>Debt Service Coverage.</li> </ul> </li> <li>Comments should:</li> </ul>
		<ul> <li>describe: <ul> <li>the situation and the variance's root cause;</li> <li>risk changes or trends;</li> <li>any Property management changes;</li> <li>the Borrower/Property manager's plan to improve cash flow if the Property is <ul> <li>on the Watchlist, or</li> <li>not performing as expected per original underwriting; and</li> <li>the overall</li> <li>payment history,</li> <li>debt service adjustments,</li> <li>Property performance, or</li> <li>significant financial changes; and</li> </ul> </li> <li>include: <ul> <li>available market data, noting</li> <li>concerns or improvements, and</li> <li>Property performance relative to competition;</li> <li>normalization/annualization adjustments; and</li> <li>applicable hedge data for rate cap income and/or escrow payments.</li> </ul> </li> </ul></li></ul>
4	Resolve	Timely resolve any quality control issues.

# **503.02** Quarterly Financial Analysis of Operations



# ✓ Requirements

Fannie Mae Watchlist Status or Product	Reporting
Fannie Mae Watchlist Property (All Products)	You must submit detailed quarterly operating statements  • 90 days after the end of the first quarter, and  • 75 days after the end of the second and third quarters.
Cooperative Property	No quarterly financial reporting or waiver required.
Small Mortgage Loan	If the original Mortgage Loan amount is: • equal to \$6 million or less, no quarterly financial reporting or waiver required; or • greater than \$6 million, you must submit detailed quarterly operating statements 75 days after the end of the second and third quarters.
Seniors Housing Property	You must submit detailed quarterly operating statements 75 days after the end of every quarter.
Credit Facility or Bulk Delivery Property	You must submit the Deal Level Structured Transaction (BD/CF) Quarterly report 75 days after the end of every quarter, including the • detailed quarterly operating statements, • Structured Facilities Monitoring Narrative (Form 4801), and • Spreadsheet (Form 4802).
All Others	You must submit detailed quarterly operating statements 75 days after the end of the second and third quarters.

# **%** Operating Procedures

You must adhere to the following due dates:

# **Fannie Mae Watchlist Property**



Reporting Quarter	Period Covered	Reporting Due Date for Property with 12/31 Fiscal Year End	Reporting Due Date for Property with non-12/31 Fiscal Year End
First	1st quarter	June 30	90 days after 1st quarter end
Second	2nd quarter year-to-date	September 15	75 days after 2nd quarter end
Third	3rd quarter year-to-date	December 15	75 days after 3rd quarter end

Seniors Housing Property					
Reporting Quarter	Period Covered	Reporting Due Date for Property with 12/31 Fiscal Year End	Reporting Due Date for Property with non-12/31 Fiscal Year End		
First	Trailing 3 months operating data covering the 1st quarter	June 15	75 days after 1st quarter end		
Second	Trailing 3 months operating data covering the 2nd quarter	September 15	75 days after 2nd quarter end		
Third	Trailing 3 months operating data covering the 3rd quarter	December 15	75 days after 3rd quarter end		
Fourth	Trailing 3 months operating data covering the 4th quarter	March 15	75 days after 4th quarter end		



Credit Facility or Bulk Delivery Property					
Reporting Quarter	Reporting Period	Reporting Due Date for Property with 12/31 Fiscal Year End	Reporting Due Date for Property with non-12/31 Fiscal Year End		
First	Trailing 3 months operating data: • Property level statements covering the 1st quarter; and • Deal level Structured Facilities Monitoring Narrative and Spreadsheet (Form 4801 and Form 4802).	June 15	75 days after 1st quarter end		
Second	Trailing 3 months operating data: • Property level statements covering the 2nd quarter; and • Deal level Structured Facilities Monitoring Narrative and Spreadsheet (Form 4801 and Form 4802).	September 15	75 days after 2nd quarter end		
Third	Trailing 3 months operating data: • Property level statements covering the 3rd quarter; and • Deal level Structured Facilities Monitoring Narrative and Spreadsheet (Form 4801 and Form 4802).	December 15	75 days after 3rd quarter end		



All Others				
Reporting Quarter	Period Covered	Reporting Due Date for Property with 12/31 Fiscal Year End	Reporting Due Date for Property with non-12/31 Fiscal Year End	
Second	2nd quarter year-to-date	September 15	75 days after 2nd quarter end	
Third	3rd quarter year-to-date	December 15	75 days after 3rd quarter end	

# Guidance

If any due date is not a Business Day, you may submit the quarterly Financial Analysis of Operations on the next Business Day.

# **503.03** Annual Financial Analysis of Operations

### **503.03A** Reporting Period

# ✓ Requirements

The annual Financial Analysis of Operations (Form 4254 or Form 4254.Seniors) for each Property must cover the



- previous calendar year for a Property with a 12/31 fiscal year end, or
- fiscal year ending in the previous calendar year for a Property with a non-12/31 fiscal year end.

### **503.03B** Submission

# **>** Operating Procedures

- 1. Comply with the Annual Reporting Protocol table.
- 2. Analyze the Borrower's operating statements per Form 4254.DEF.
- 3. Indicate on each statement line which of the Borrower's income and expense items are included.
- 4. Provide the pertinent income, expense, and other required data for the current reporting period in the MAMP.

Annual Reporting Protocol				
For	Due Date	You must		
First Year				
A Mortgage Loan Fannie Mae purchases on or before June 30	June 1 of the following year.	Annualize the operating data to represent 12 months of operations.		
A Mortgage Loan Fannie Mae purchases on or after July 1	June 1 of the second year after purchase.	Submit 12 months of actual operating data.		
Subsequent Years				



Every Property	June 1 for a Property with a 12/31 fiscal year end, or     for a Property with a non-12/31 fiscal year end:         - within 150 days after the fiscal year-end; and         - submit a data change request via the	Submit 12 months of actual operating data.
	change request via the MAMP to change the Borrower's fiscal year end.	

### **503.03C** Annual Review

**>** Operating Procedures

Within 15 Business Days after Fannie Mae notifies you of a Mortgage Loan review, you must submit:

- the Borrower's operating statements, with each income and expense line item indicated per Form 4254.DEF;
- the Borrower's escrow activity reconciliation; and
- any other requested documentation.

### **503.04** Waiver Request

**%** Operating Procedures



Waiver Reason	Action
Unresponsive Borrower	<ul> <li>Request the Borrower provide the missing statements.</li> <li>If the Borrower does not respond after 3 written requests, wait to submit a waiver request via the MAMP until: <ul> <li>for an annual report, 6 months after the due date; or</li> <li>for a quarterly report, the next due date.</li> </ul> </li> <li>Include "Unresponsive Borrower" as the waiver condition in the MAMP.</li> <li>Provide copies of all relevant Borrower correspondence.</li> <li>Provide any additional requested information.</li> </ul>
All Others	Submit a waiver request via the MAMP if:  • Your Lender Contract does not require collecting Property operating statements.  • The Mortgage Loan Documents do not permit you to collect, nor require the Borrower to submit, financial reports.  • The Mortgage Loan:  • liquidated in the current quarter (for quarterly reporting waivers), or year (for annual reporting waivers), before the Financial Analysis of Operations submission due date;  • was delivered per a Forward Commitment and has not yet converted to a permanent loan;  • was defeased;  • has FHA or HUD risk sharing;  • is managed by Fannie Mae's Special Asset Management; or  • was acquired by Fannie Mae in the current reporting year, and less than 6 months of Property operating data is available.

If you receive operating statements after a waiver was granted, you must promptly submit the Financial Analysis of Operations report (Form 4254 or Form 4254.Seniors).



# **Section 504** Loan Agreement Compliance

#### **504.01** Generally

### Requirements

For all Mortgage Loans, you must

- review all required Borrower or Guarantor information, and
- confirm compliance with the quarterly and annual reporting requirements per the Loan Documents.

# Guidance

You may use the Annual Loan Agreement Certification (Form 6620 series) when compiling the required financial reports and information.

### **504.02** Financial Reports and Information

#### **504.02A** Borrower and Guarantor Notices

# **>** Operating Procedures

#### You:

- Will receive an annual list of all Mortgage Loans requiring Guarantor financial records for the past fiscal year.
- Must send the Borrower and Guarantors a list of all required financial reports.
- Must provide the Borrower and Guarantors sufficient time for you to submit certified financial reports:
  - for Borrowers.
    - within 45 days after the end of each fiscal quarter, and
    - 120 days after the end of each fiscal year; and
  - for Guarantors, by June 1.
- Must use best efforts to obtain all required reports.
- Must promptly submit all Guarantor financial reports received per Part V, Chapter 5: Surveillance, Section 504.02C: Review Financial Reporting.



### **504.02B** Borrower Fails to Provide Guarantor Financial Reports

### **Operating Procedures**

You must immediately notify Fannie Mae and the Borrower or Guarantor if:

- the Borrower fails to submit the required Guarantor financial reports and information by the date required per the Loan Documents;
- the Guarantor fails to certify each financial report is true, complete, and accurate in all material respects; or
- you believe any financial report or information is materially inaccurate or misleading.

#### You must provide:

- the Borrower or Guarantor 30 days to deliver/certify all required financial reports and information; and
- Fannie Mae copies of all related correspondence with the Borrower or any Guarantor.

If the Borrower or a Guarantor	You
Fails to:	Must request a waiver through:
<ul> <li>timely submit all required information; or</li> <li>respond to at least 3 written notices.</li> </ul>	<ul> <li>the MAMP for financials required from the Borrower; or</li> <li>Sponsor Financials for financials required from the Guarantors.</li> </ul>
Is diligently attempting to deliver all required information.	May extend the 30-day period by an additional 30 days.

### **504.02C** Review Financial Reporting



After reviewing the Borrower or Guarantor information:



If you determine	You must
No additional follow up is required	<ul> <li>Submit the certified material through: <ul><li>the MAMP for the Borrower; and</li><li>Sponsor Financials for Guarantors.</li></ul> </li> <li>Retain the information in your</li> <li>Servicing File.</li></ul>
Additional or supporting information is required	<ul> <li>Promptly:         <ul> <li>contact the Borrower or Guarantor</li> <li>to request additional information; and</li> <li>submit a copy of all financial</li> <li>reporting, explanatory schedules, and</li> <li>other supporting information through</li> <li>the MAMP for the Borrower, and</li> <li>Sponsor Financials for</li> </ul> </li> <li>Guarantors.</li> <li>Retain the information in your</li> <li>Servicing File.</li> </ul>

### **504.02D** Records

## ▼ Requirements

For the Mortgage Loan term, your Servicing File must include the originals of the following Borrower and Guarantor information:

- financial records:
- certifications and certified material; and
- related information and explanatory schedules.

# Section 505 Compliance

## ▼ Requirements

#### You must:

- maintain effective OFAC compliance procedures;
- monthly screen:
  - the Borrower, Key Principal, Guarantor, and Principals



for Potential Red Flags for Mortgage Fraud and Other Suspicious Activity; and

• all Persons per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 310: Compliance; and

### report:

- all unresolved red flags per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 310: Compliance; and
- within 24 hours, any Blocked Person to Lender Assessment Oversight.



#### **GLOSSARY**

# Aggregate Debt Service Coverage Ratio

Per the Master Credit Facility Agreement, the ratio (expressed as a percentage) of the aggregate Net Cash Flow for the Mortgage Properties to the Facility Debt Service.

# Capitalization Rate Derivation

Independent determination of the appropriate capitalization rate for a specific Property.

#### **Synonyms**

Cap Rate Study

## Debt Service Reserve Account

Springing Debt Service Reserve per the Master Credit Facility

Agreement that a Borrower may be required to fund in the event of a Springing Trigger.

#### **Synonyms**

Springing Debt Service Reserves
Springing Debt Service Reserve

# Debt Service Reserve Release Test

Master Credit Facility Agreement requirement for a Debt Service Reserve Account to be returned to the Borrower.

# DSCR Shortfall Amount

<u>Per the Master Credit Facility Agreement, an amount the Borrower</u> must fund into the Debt Service Reserve Account.

# Springing Trigger

Per the Master Credit Facility Agreement, a defined event that permits the Lender to require the Borrower to fund the Debt Service Reserve Account.



# Trigger Event

Per the Master Credit Facility Agreement, a defined event that gives the right to fully re-underwrite the Credit Facility per the Underwriting and Servicing Requirements.