



Fannie Mae®

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# Multifamily Selling and Servicing Guide

Effective as of June 7, 2024

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# Summary of Changes

## HIGHLIGHTS

**Effective for Small Mortgage Loans registered in DUS Gateway as of June 7, 2024**, updated the requirements for Property Condition Assessments and Borrower due diligence in the

- Guide, and
- Instructions for Performing a Multifamily Property Condition Assessment (Form 4099).

## Primary Changes

Updated:

- Part III, Chapter 9: Small Mortgage Loans to:
  - modify the Replacement Reserve expense when calculating Underwritten Net Cash Flow;
  - eliminate Streamlined PCAs and require a full PCA per Form 4099; and
  - require you to verify the Borrower's
    - assets, and
    - liquidity;
- Part III, Chapter 18: Choice Refinance Loans to eliminate Streamlined PCAs and require a full PCA per Form 4099;
- Part IV, Chapter 7: Variable Rate Conversions and Renewals to require a new full PCA per Form 4099 for any non-MAH Property if the conversion from variable rate to fixed rate extends the term of the
  - ARM Loan, or
  - SARM Loan; and
- Form 4099 guidance to remove the:
  - option to perform a Streamlined PCA; and
  - PCA Consultant's ability to complete the MBA Inspection Form for you.

## Questions





Please contact Colleen Gurkin at (626) 396-4617, or [colleen\\_gurkin@fanniemae.com](mailto:colleen_gurkin@fanniemae.com), with any questions.



## Chapter 9 Small Mortgage Loans

### Section 901 Generally

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#### 901.01 Description

##### Requirements

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

##### Guidance

A Small Mortgage Loan may be underwritten per:

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

#### 901.02 Applicability

##### Requirements

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

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

### Section 902 Key Principal Guaranty Obligation

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##### Requirements

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

### Section 903 Occupancy

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##### Requirements

Small Mortgage Loans must achieve Stabilized Residential Occupancy



as follows:

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

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

## Section 904 Corporate Leases; Leases to One Entity

### Guidance

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

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

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

## Section 905 Property Income Analysis

### 905.01 Small Mortgage Loan Underwritten NCF (Underwritten NCF)

#### Requirements

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

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



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

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

REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		
1		GROSS RENTAL INCOME – the lesser of <ul style="list-style-type: none"> <li>• actual rents in place, or</li> <li>• market rents for occupied units, plus market rents for vacant units based on a current rent roll (multiplied by 12).<sup>1</sup></li> </ul>
2	PLUS	To the extent deducted as an operating expense, rents for other non-revenue units. For example: <ul style="list-style-type: none"> <li>• model units deducted in the “model apartment” operating expense in the “general and administrative” category;</li> <li>• owner-occupied units<sup>2</sup> deducted in the “general and administrative” category; and</li> <li>• employee units<sup>3</sup> deducted in the “employee” operating expense in the “payroll and benefits” category.</li> </ul>
	EQUALS	GROSS POTENTIAL RENT (GPR)
3	MINUS	Premiums and corporate premiums.
4	MINUS	Physical vacancy – market rents for vacant units based on a current rent roll (multiplied by 12). <sup>4</sup>



5	MINUS	Concessions – the aggregate amount of forgone residential rental income from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc. <sup>4</sup>
6	MINUS	Bad debt – the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt. <sup>4</sup>
	EQUALS	NET RENTAL INCOME (NRI)

1 (a) In the New York-Northern New Jersey-Long Island, NY-NJ-PA MSA, you may use actual rents in place plus projected increases for rent-regulated units that have rent increases scheduled before, or through, the first 12 months of the loan term. Any units subject to rent regulation on the Commitment Date must be treated as rent-regulated for this calculation even if converting to market rate after origination.

(b) For Properties located in New York City that are currently subject to the J51 Tax Incentive Program, you must ensure that the Gross Rental Income is calculated per Item 1 in [Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis](#).

2 You must deduct owner-occupied units as an expense unless

- the Mortgage Loan is Tier 3 or Tier 4, or
- the Property contains 24 or more units.

3 You must deduct as an expense the portion of the market rent used as employee compensation.

4 The total of Items 4, 5, and 6 must be greater than or equal to

- 3% of GPR for the New York-Northern New Jersey-Long Island, NY-NJ-PA and San Francisco-Oakland-Fremont, CA, Metropolitan Statistical Areas (MSAs), if supported by market and property operations, or
- 5% of GPR for all other MSAs.

## CALCULATION OF OTHER INCOME



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



13	MINUS	<p>Line-by-line stabilized operating expenses. Stabilized operating expenses are the expenses during normal ongoing <b>Property</b> operations, not affected by a</p> <ul style="list-style-type: none"><li>• lease-up,</li><li>• rehabilitation, or</li><li>• other short-term positive or negative factors.</li></ul> <p>Non-recurring, extraordinary operating expenses must not be included.</p> <p>You must assess:</p> <ul style="list-style-type: none"><li>• past operating history;</li><li>• the appraiser's expense analysis;</li><li>• all information available to you (including <b>Property</b> contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and</li><li>• the <b>Borrower's</b> budget (in the case of an acquisition).</li></ul> <p>You must:</p> <ul style="list-style-type: none"><li>• analyze historical operations at the <b>Property</b>;</li><li>• apply an appropriate increase over the prior year's operations in determining an estimate; and</li><li>• include all <b>STR</b>-related expenses in their respective expense line items, including<ul style="list-style-type: none"><li>- cleaning,</li><li>- furnishing, and</li><li>- repairs.</li></ul></li></ul> <p>You cannot include any operating expense that reflects blanket or bulk discounts that benefit the <b>Borrower</b> or <b>Key Principal</b> (e.g., blanket property or casualty insurance policies, or utilities purchased in bulk). Operating expenses must reflect the <b>Property</b> expenses on a stand-alone basis.</p>
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14	MINUS	Property management fee equal to the greatest of: <ul style="list-style-type: none"><li>• 3% of EGI;</li><li>• actual property management fee (exclude any portion of a property management fee that is subordinated to the Mortgage Loan); or</li><li>• market property management fee.</li></ul>
15	MINUS	Real estate taxes per Item 17(b) in Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF).
16	MINUS	Insurance equal to: <ul style="list-style-type: none"><li>• the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or</li><li>• 110% of the current expense, for insurance policies with a remaining term less than 6 months.</li></ul>
17	MINUS	Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses as detailed in Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)





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

**905.02** Underwritten DSCR

Requirements

You must calculate Underwritten DSCR per the following table.

UNDERWRITTEN DSCR <sup>1,2</sup>		
Item	Function	Description
1		Underwritten NCF as calculated in Part III, Chapter 9: Small Mortgage Loans, Section 905.01: Small Mortgage Loan Underwritten NCF (Underwritten NCF).



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

## Section 906

### Property Management

#### Requirements

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

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



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

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

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

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

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

### Guidance

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

A qualified on-site manager

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



## Section 907 Property Condition

### 907.01 Lender's Site Inspection by Lender and Lease Audit

#### ☑ Requirements

You must ensure:

- your qualified employee performs a physical Property inspection (including any Choice Refinance Loan) per Part II, Chapter 4: Inspections and Reserves, Section 401: Site Inspection and Lease Audit; and
- the physical inspection addresses special hazards, zoning, building and fire code violations, and regulatory compliance per the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099).

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

- assessment of the current Property condition;
- identification and cost estimate of any Immediate Repairs, which must be included in the appropriate Completion/Repair Agreement; and
- estimate of anticipated replacement and major maintenance needs.

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

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

The date of the site inspection must meet the timing requirements for a PCA in Part II, Chapter 4: Inspections and Reserves, Section 403: Property Condition Assessment (PCA).

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



- an overall rating on the [MBA Standard Inspection Form](#) that does not comply with [Part II, Chapter 4: Inspections and Reserves, Section 401: Site Inspection and Lease Audit](#); or
- deferred maintenance with repair costs greater than 10% of the UPB;
- [comply with Part II, Chapter 4: Inspections and Reserves, Section 401: Site Inspection and Lease Audit](#); and
- [not Deliver any Small Mortgage Loan](#) if the [Property's estimated Completion/Repair costs](#) are greater than 10% of the UPB.

#### Guidance

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

- is required, or
- should be performed.

### 907.02 Site Inspection by Borrower

#### Requirements

You must ensure that the Borrower or the Key Principal:

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

### 907.03 PCA

#### Requirements

~~A~~ You must comply with [PCAPart II, Chapter 4: Inspections and Reserves, Section 403: Property Condition Assessment \(PCA\)](#) is required:

- if the site inspection
  - notes structural or physical concerns, or
  - results in an overall rating of 3 being reported on the [Comp Assmt Addendum](#) tab of the [MBA Standard Inspection Form](#); or



- when a Replacement Reserve is required per Part III, Chapter 9: Small Mortgage Loans, Section 908: Replacement Reserve.

#### → Guidance

For a required or optional PCA, you may use the Streamlined Property Condition Assessment Guidance (Form 4099.A), but the PCA must otherwise comply with Part II, Chapter 4: Inspections and Reserves, Section 403: Property Condition Assessment (PCA).

## Section 908

### Replacement Reserve

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#### ☑ Requirements

You must require either full funding or alternative funding (per Part II, Chapter 4: Inspections and Reserves, Section 405.03: Alternative Replacement Reserve Funding) of the Replacement Reserve for any Tier 2 Small Mortgage Loan on a

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

For all other Small Mortgage Loans, you must determine whether to require funding of the Replacement Reserve.

If you do not require full funding, then you and the Borrower must execute either

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

## Section 909

### Environmental Matters and Inspections

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#### ☑ Requirements

Before the Commitment Date, you must:

- Obtain an Environmental Screening of the Property using the ASTM E-1528 protocol.



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

### ➔ Guidance

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

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

### ✻ Operating Procedures

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



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

## Section 910

### Borrower, Key Principals, Guarantors, and Principals

#### Requirements

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

#### 910.01 Borrower Organizational Structure

#### Requirements

Any individual **Borrower** must not be a **Foreign Person**.

Although a single asset entity is preferred, the **Borrower** may be a multi-asset entity.

#### Guidance

If the **Borrower** owns multiple assets, then you should obtain and underwrite the **Borrower's** complete schedule of owned real estate assets. Your underwriting should include the nature, location, cash flows, outstanding mortgage debt, and contingent liabilities of each asset.

#### 910.02 Co-Tenant Borrowers

#### Requirements

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

A **Co-Tenant Borrower** must be

- an individual who is not a **Foreign Person**,





- a single-asset entity, or
- a multi-asset entity.

### 910.03 Key Principals

#### Requirements

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

### 910.04 Principals

#### Requirements

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

### 910.05 Financial Statements

#### Requirements

You must ~~obtain:~~

- ~~a schedule of owned real estate assets, and~~
- ~~signed financial statements.~~
- obtain
  - a schedule of owned real estate assets, and
  - signed financial statements; and
- verify liquid assets for the 3-months immediately before the Borrower's loan application by obtaining copies complying with the aging requirements per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals of all
  - bank statements, and
  - investment portfolio statements.

~~Instead of signed financial statements, you may obtain an equivalent signed net worth statement or personal financial statement (such as a form bank application from the Borrower certifying to its financial condition) that conforms to the aging requirements in Part I, Chapter 3:~~



## ~~Borrower, Guarantor, Key Principals, and Principals.~~

### 910.06 Net Worth and Liquid Assets

#### Requirements

You must ensure that:

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

#### Guidance

You should:

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

## Section 911 Credit Reports

### 911.01 Credit Report

#### Requirements



Within 90 days before the **Commitment Date**, you must obtain credit reports for all individual

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

The credit reports must be from at least 2 of the following credit information services:

- Equifax;
- Experian; or
- TransUnion.

## 911.02 FICO Scoring

### Requirements

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

### Guidance

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

If...	Then...
You obtain credit reports from 2 of the 3 credit information services for a Borrower, Key Principal, Guarantor, or Principal	Use the lower of the 2 scores.
You obtain credit reports from all 3 credit information services, for a Borrower, Key Principal, Guarantor, or Principal	Use the middle score.



If...	Then...
A Small Mortgage Loan has multiple individual Borrowers, Key Principals, Guarantors, or Principals	Use the average of their respective FICO scores.

### 911.03 Reviewing the Credit Report

#### Requirements

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

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

#### Guidance

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

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



## Chapter 18

## Choice Refinance Loans

### Section 1801

### Eligibility

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#### Requirements

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

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

Topic	Requirements
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Prerequisites	<ul style="list-style-type: none"><li>• You have been the Servicer of the Portfolio Mortgage Loan for the last 12 months.</li><li>• The Choice Refinance Loan complies with Form 4660.</li><li>• The Portfolio Mortgage Loan is not in default.</li><li>• The Borrower has demonstrated a commitment to its obligations under the Portfolio Mortgage Loan by<ul style="list-style-type: none"><li>- maintaining the Property in good physical condition,</li><li>- providing competent Property management services, and</li><li>- complying with the requirements under the Loan Documents.</li></ul></li><li>• You completed a full PCA per<ul style="list-style-type: none"><li>- Part II, Chapter 4: Inspections and Reserves, Section 403: Property Condition Assessment (PCA), and</li><li>- Form 4099.</li></ul></li><li>• The Property:<ul style="list-style-type: none"><li>- is operating on a stabilized basis;</li><li>- has a most recent overall inspection rating of 1 or 2; and</li><li>- does not show any adverse change in Property condition, except normal wear and tear, or any life safety issues during the underwriting inspection.</li><li>- during the underwriting inspection, does not show any:<ul style="list-style-type: none"><li>▪ adverse change in Property condition, except normal wear and tear; or</li><li>▪ life safety issues.</li></ul></li></ul></li></ul>
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Loan History	<ul style="list-style-type: none"><li>• The <b>Portfolio Mortgage Loan</b>:<ul style="list-style-type: none"><li>- has a good payment history, with no delinquencies of 60 days or more during the 3 years immediately preceding the proposed refinance;</li><li>- is not on the current Fannie Mae <b>Watchlist</b>;</li><li>- had no declared <b>non-Payment Defaults</b> that remained uncured for more than 120 days;</li><li>- was underwritten and delivered per then-applicable <b>Guide</b> provisions; and</li><li>- is serviced per the <b>Guide</b>.</li></ul></li><li>• There were no unauthorized assumptions or changes in ownership, and no unauthorized <b>Liens</b> filed against the <b>Property</b>.</li></ul>
Additional Collateral	The <b>Portfolio Mortgage Loan</b> does not have a <b>Letter of Credit</b> or additional cash collateral.
Pricing	The pricing that was approved for the <b>Portfolio Mortgage Loan</b> does not apply to the <b>Choice Refinance Loan</b> .
Underwriting	The <b>Choice Refinance Loan</b> , regardless of the <b>Underwritten DSCR</b> , must be of sufficient credit quality to repay the refinanced <b>Mortgage Loan</b> without individually negotiated debt relief.

## Section 1802

### Lender Delegation

#### Requirements

You are delegated to underwrite the **Choice Refinance Loan** if:

- the **Portfolio Mortgage Loan** and the **Choice Refinance Loan** fall under the same **Pre-Review** categories in the **Form 4660**, and Fannie Mae approved those same **Pre-Review** categories for the **Portfolio Mortgage Loan**; or
- the **Choice Refinance Loan** falls under the **Pre-Review** categories in the **Form 4660**, and has the same structure as the **Portfolio Mortgage Loan**, even though the **Portfolio Mortgage Loan** was not a **Pre-Review Mortgage Loan** when it was **Committed**.



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

## Section 1803 Prepayment Premiums

### Requirements

You must not waive any:

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

### Guidance

For all other [Choice Refinance Loans](#):

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

## Section 1804 Streamlined Underwriting





## **1804.01** Property Condition Assessment (PCA)

### Guidance

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

## **1804.02** Environmental Site Assessment

### **1804.01**

### Requirements

A Phase I Environmental Site Assessment is not required if:

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

## **1804.03** Radon Testing

### **1804.02**

### Requirements

You must ensure radon testing is performed per Environmental Due Diligence Requirements (Form 4251) unless testing meeting the requirements of Form 4251 was performed when the Portfolio Mortgage Loan was originated.

## **1804.04** Survey

### **1804.03**

### Requirements

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



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

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

##### **1804.04**

#### Requirements

You must:

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

#### **1804.06** Borrower Credit

##### **1804.05**

#### Requirements

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

For **Small Mortgage Loans**, you must:

- confirm that the FICO scores of any such individuals comply



with Part III, Chapter 9: Small Mortgage Loans, Section 911.02: FICO Scoring; and

- ensure that the net worth and liquidity complies with Part III, Chapter 9: Small Mortgage Loans, Section 910.06: Net Worth and Liquid Assets.

 Guidance

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

**1804.07** Property Management

**1804.06**

 Guidance

You may elect not to review the Property management or agreement per Part II, Chapter 1: Attributes and Characteristics, Section 112: Property Management and Agreement.

**1804.08** Replacement Reserve

**1804.07**

 Requirements

You must ensure the Replacement Reserve is funded as follows:

If...	Then...
The Property <ul style="list-style-type: none"><li>• is located in a Pre-Review Market that is not eligible for delegation at any Tier per Section II of Form 4660, and</li><li>• the market was a Pre-Review Market when the Portfolio Mortgage Loan was originated.</li></ul>	The Borrower must fully fund the Replacement Reserve.



<p>The Property</p> <ul style="list-style-type: none"> <li>• is located in a Pre-Review Market that is not eligible for delegation at any Tier per Section II of Form 4660, but</li> <li>• the market was not a Pre-Review Market when the Portfolio Mortgage Loan was originated.</li> </ul>	<p>You must determine the Replacement Reserve funding per Part II, Chapter 4: Inspections and Reserves, Section 405: Replacement Reserve.</p>
<p>The Property is located in</p> <ul style="list-style-type: none"> <li>• a Strong Market,</li> <li>• a Nationwide Market, or</li> <li>• a Pre-Review Market that is eligible for Tier 3 and Tier 4 Mortgage Loans on a delegated basis per Section II of Form 4660.</li> </ul>	<p>You must determine the Replacement Reserve funding per Part II, Chapter 4: Inspections and Reserves, Section 405: Replacement Reserve.</p>

**1804.09** Real Estate Tax and Insurance Escrows

**1804.08**

Requirements

You must require T&I escrow deposits for a Tier 2 Choice Refinance Loan unless Fannie Mae waived the T&I escrow for the Portfolio Mortgage Loan. If you do not require T&I escrow deposits, then you must comply with Part II, Chapter 4: Inspections and Reserves, Section 406: Escrow Requirements for Taxes and Insurance.

**Section 1805** Property Ownership Change

Guidance

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

You may also use the streamlined underwriting per Part III, Chapter 18:



Choice Refinance Loans, Section 1801: Eligibility for Portfolio Mortgage Loans that were assumed before being refinanced as a Choice Refinance Loan.



## Chapter 7

## Variable Rate Conversions and Renewals

### Section 701

### Conversion Process

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#### Requirements

For a [Mortgage Loan](#) originated using Fannie Mae form [Loan Documents](#) that automatically converts to a variable rate or a fixed rate per the [Loan Documents](#), you must comply with the [Loan Documents](#).

For a [Mortgage Loan](#) originated using non-Fannie Mae form [Loan Documents](#) with a conversion option or other interest rate change (automatic or otherwise), you must

- comply with the [Loan Documents](#), and
- contact [Multifamily Acquisitions](#).

You must use the following table to determine the conversion process.

For conversion of...	You must...
An ARM Loan or a SARM Loan to fixed rate	Comply with this Chapter.
A variable rate Mortgage Loan in a Structured Transaction to fixed rate	Comply with <a href="#">Part IV, Chapter 2: Rate Lock and Committing</a> .
A Hybrid ARM Loan to the adjustable rate term	Comply with <a href="#">Part III, Chapter 13: Hybrid Adjustable Rate Mortgage (Hybrid ARM) Loans</a> .
A variable rate Credit Enhancement Mortgage Loan to fixed rate	Comply with <a href="#">Part III, Chapter 19: Bond Transactions and Credit Enhancement Mortgage Loans</a> .

#### Guidance

For information about the [ARM Loan](#) and [SARM Loan](#) conversion process, refer to [Frequently Asked Questions \(FAQs\) Exercising the Fixed Rate Conversion Option for an Adjustable Rate Mortgage Loan \(ARM Loan\)](#) or a [Structured ARM Loan \(SARM Loan\)](#).

### Section 702

### ARM Loan and SARM Loan Conversions

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## 702.01 Governing Documents

### Requirements

For interest rate conversions, you must comply with the following documents and order of priority:

- Interest Rate Conversion Agreement;
- Loan Documents; and
- this Chapter.

## 702.02 Minimum Conversion Debt Service Ratio

### Requirements

To convert...	You must...
A Mortgage Loan to a fixed rate	Confirm the Minimum Conversion Debt Service Ratio (per the Interest Rate Conversion Agreement) is met.
A Supplemental Mortgage Loan to a fixed rate	Confirm the Minimum Conversion Debt Service Ratio is met using the sum of <ul style="list-style-type: none"><li>• the current annual combined debt service of all Pre-Existing Mortgage Loans (using the maximum interest rate for any variable rate Pre-Existing Mortgage Loan), plus</li><li>• the annual debt service of the converted fixed rate Supplemental Mortgage Loan.</li></ul>

## 702.03 Conversion Criteria

### Requirements

You must comply with the following table.

Criteria	You must...
DUS Gateway	Enter delegated and non-delegated conversions in DUS Gateway.



Criteria	You must...
Effective Date	Ensure the conversion is effective on a payment date (i.e., the 1st day of the month).
Conversion Timeline	<ul style="list-style-type: none"> <li>• For an ARM Loan, exercise the conversion               <ul style="list-style-type: none"> <li>- after the 1st Loan Year, and</li> <li>- up to, and including, the last day of the 5th Loan Year.</li> </ul> </li> <li>• For a SARM Loan, exercise the conversion               <ul style="list-style-type: none"> <li>- after the 1st Loan Year, and</li> <li>- up to, and including, the 1st day of the 3rd month before the Maturity Date.</li> </ul> </li> </ul>
Loan Term	<p>Convert to a fixed rate Mortgage Loan with a loan term</p> <ul style="list-style-type: none"> <li>• greater than or equal to 7 years, and</li> <li>• less than or equal to 10 years.</li> </ul>
Underwriting	<p>Underwrite the conversion as follows:</p> <ul style="list-style-type: none"> <li>• Base actual DSCR on the trailing 12-month period from the most recent supportable actual operations per the Borrower's Property financial statements.</li> <li>• Ensure actual DSCR meets the minimum required DSCR for a fixed rate Mortgage Loan at the same Pricing and Underwriting Tier as the original ARM Loan or SARM Loan.</li> <li>• Comply with the Loan Documentation Requirements (Form 6000).</li> </ul>

#### 702.04 Guaranty Fee and Servicing Fee

##### Requirements

You must calculate the Gross Note Rate using the current Guaranty Fee and Servicing Fee for a fixed rate Mortgage Loan in effect at Rate Lock.

#### 702.05 Interest-Only





### Requirements

If an interest-only [ARM Loan](#) or [SARM Loan](#) converts during the interest-only period and the new loan term is less than the original term, you must ensure

- the interest-only period does not carry over, and
- fixed rate amortization begins immediately.

### Guidance

If an interest-only [ARM Loan](#) or [SARM Loan](#) converts during the interest-only period and the new loan term is greater than or equal to the original term, you may allow the remaining interest-only period to carry over to the fixed rate [Mortgage Loan](#).

## 702.06 Fixed Rate Amortization

### Requirements

You must comply with the following table.

For ARM Loans and SARM Loans with...	The fixed rate amortization term will be...
Full-term interest-only	360 months.
<ul style="list-style-type: none"><li>• Partial interest-only or amortization,</li><li>• a fixed rate term greater than or equal to the original ARM Loan or SARM Loan term, and</li><li>• a most recent Property condition rating of 1 or 2</li></ul>	360 months.
Other characteristics	equal to <ul style="list-style-type: none"><li>• the original <a href="#">ARM Loan</a> or <a href="#">SARM Loan</a> amortization term (in months), minus</li><li>• the number of monthly payments (P&amp;I or interest-only) since the <a href="#">Mortgage Loan Origination Date</a>.</li></ul>



## 702.07 Fixed Rate Debt Service Payments

### Operating Procedures

To calculate the fixed rate monthly P&I payments, you must:

1. Determine the amount required to repay the [Mortgage Loan UPB](#).
2. Divide the amount into equal monthly installments.
3. Include interest accrued at the fixed rate over the amortization term per [Part IV, Chapter 7: Variable Rate Conversions and Renewals, Section 702.06: Fixed Rate Amortization](#).
4. Use a 30/360 interest accrual method, regardless of whether the [Mortgage Loan](#) uses a 30/360 or an actual/360 interest accrual method.

## 702.08 Fixed Rate MBS Trade Premium

### Requirements

For premiums on fixed rate [MBS](#) trades, you must comply with the [Pricing Memo](#).

## 702.09 New Property Condition Assessment (PCA)

### Requirements

[For any non-MAH Property, you must obtain a new full PCA per Form 4099 if the conversion extends the term of the fixed rate Mortgage Loan beyond the original term of the ARM Loan or SARM Loan.](#)

You must obtain a [new full PCA \(or a Streamlined every 5 years for an PCAMA Property per Part III, Chapter 9: Small Mortgage Loans, Section 907.03: PCAPart V, Chapter 4: Asset Management: Loan Document Administration, Section 408.04E: New Property Condition Assessments\) if.](#)

- [the conversion extends the term of the ARM Loan or SARM Loan, and](#)
- [the Property is not an MAH Property.](#)

You must obtain the [PCA](#) by the earlier of

- [the final Loan Year of the ARM Loan or SARM Loan if it had not](#)



been converted, or

- Loan Year 10.

## Section 703 Commitment and Delivery

### 703.01 Rate Lock and Commitment

#### Operating Procedures

When you receive the Borrower's conversion notice for an ARM Loan or a SARM Loan:

- Perform your standard due diligence before obtaining a Rate Lock.
- Ensure the quoted fixed rate is less than or equal to the maximum fixed rate used to determine Net Cash Flow.
- Rate Lock with the Borrower for the quoted fixed rate by the 10th day of the month before the Conversion Date.
- Submit your Commitment request in C&D.
- Obtain a confirmed Commitment for the fixed rate Mortgage Loan.

### 703.02 Conversion Delivery

#### 703.02A Deliver Loan Document Amendments

#### Operating Procedures

**Step 1:** Execute and deliver the Rate Conversion Amendment.

- Obtain the Borrower's signature on the Rate Conversion Amendment.
- If you have a Limited Power of Attorney with Fannie Mae (per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 403: Execution of Documents by Servicer – Limited Power of Attorney), you must
  - execute the Rate Conversion Amendment as Fannie Mae's attorney-in-fact, and
  - include the executed document in the Mortgage Loan Delivery Package.
- If you do not have a Limited Power of Attorney, you must:



- deliver the Rate Conversion Amendment to Multifamily Acquisitions who will execute and retain the original with the Mortgage Loan Delivery Package; and
- retain the returned, executed copy in your Servicing File.

**Step 2:** Determine if state law requires a Security Instrument amendment for a change in the Mortgage Loan Maturity Date.

If an amendment is needed, you must:

- obtain the Borrower's signature;
- either:
  - execute the amendment if you have a Limited Power of Attorney with Fannie Mae (per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 403: Execution of Documents by Servicer – Limited Power of Attorney); or
  - deliver the amendment to Multifamily Acquisitions who will execute and return to you; and
- ensure the executed amendment is recorded in the appropriate land records.

## **703.02B** Deliver Mortgage Loan Delivery Package

### Operating Procedures

**Step 1:** Prepare the Mortgage Loan Delivery Package, including all documents listed in Form 6000 as “Required upon Conversion” for an ARM Loan or a SARM Loan.

**Step 2:** Deliver the Mortgage Loan Delivery Package to Multifamily Certification and Custody

- within 10 days after receiving the confirmed Commitment, and
- by the Delivery deadline.

**Step 3:** Deliver the data and documents per Part IV, Chapter 4: Delivery.

**Step 4:** Upload Form 4662 and relevant underwriting due diligence to DUS DocWay.



### 703.03 Conversion Activities

#### Operating Procedures

You must coordinate with Fannie Mae to ensure the following conversion activities occur.

You must...	Fannie Mae will...
<ul style="list-style-type: none"> <li>• Issue a new fixed rate MBS Pool after completing the conversion process.</li> <li>• Deliver the converted fixed rate Mortgage Loan to Fannie Mae under the new confirmed Commitment.</li> <li>• Ensure the MBS trade has a Book-Entry Date no later than:               <ul style="list-style-type: none"> <li>- the 17th day of the month of the Conversion Effective Date for an MBS ARM Loan or SARM Loan; or</li> <li>- the 10th day of the month of the Conversion Effective Date for a Cash ARM Loan or SARM Loan.</li> </ul> </li> <li>• Deposit the funds from the MBS trade into your applicable P&amp;I Custodial Account.</li> </ul>	<ul style="list-style-type: none"> <li>• Issue the new fixed rate MBS.</li> <li>• For a variable rate <b>Cash Mortgage Loan</b>, place it into the MBS trade assignment account.</li> <li>• Transfer the MBS to the MBS Investor per your instruction on either the 10th or the 17th day of the month (as applicable) of the Conversion Effective Date.</li> </ul>

### 703.04 Pay Off

#### Requirements

You must confirm, report, and remit funds to pay off the **MBS ARM Loan** or **SARM Loan**.

#### Operating Procedures

1. Request **MBS** payoff amount verification by submitting your calculation in the Fannie Mae Payoff Calculator per **Part V, Chapter 2: Reporting and Remitting, Section 210: Full Prepayments**.
2. Send the payoff amount to Fannie Mae per the standard monthly



remittance process in [Part V, Chapter 2: Reporting and Remitting](#).

3. For an [MBS ARM Loan](#) or [SARM Loan](#),

- report a \$0 balance for the [MBS](#) on the 1st or 2nd day of the month in which the [Conversion Effective Date](#) occurs, and
- [Fannie Mae](#) will draft the funds due to the [MBS Investor](#).

## Section 704 ARM 5/5 Optional 5-Year Adjustable Rate Term Renewal

### 704.01 Eligibility

#### Operating Procedures

To renew an [ARM 5/5 Loan](#) for a second 5-year adjustable rate term:

Timing before the initial Maturity Date	You must...
At least 180 days	<ul style="list-style-type: none"><li>• Notify <a href="#">Multifamily Asset Management</a> that the <a href="#">ARM 5/5 Loan</a> will be renewed for the second 5-year adjustable rate term.</li><li>• Confirm the <a href="#">ARM 5/5 Loan</a> complies with <a href="#">Part III, Chapter 11: Adjustable Rate Mortgage (ARM) Loans, Section 1104: ARM 5/5 Loan Optional 5-Year Adjustable Rate Term Renewal Eligibility</a>.</li><li>• Include preliminary <a href="#">DSCR</a> and <a href="#">LTV</a> calculations.</li><li>• Estimate the starting interest rate for the second 5-year adjustable rate term, including the new <a href="#">Investor spread</a>.</li></ul>
At least 30 days	Provide <a href="#">Multifamily Asset Management</a> with: <ul style="list-style-type: none"><li>• an updated <a href="#">ARM 5/5 Loan</a> eligibility confirmation;</li><li>• current <a href="#">DSCR</a> and <a href="#">LTV</a> calculations; and</li><li>• an estimate of the starting interest rate for the second 5-year adjustable rate term, including the new <a href="#">Investor spread</a>.</li></ul>

### 704.02 Underwriting



### ☑ Requirements

If an ARM 5/5 Loan is renewed for an additional 5 years, you must:

- Use the same [Guaranty Fee](#) and [Servicing Fee](#) as the first 5-year adjustable rate term.
- Adjust the [Investor](#) spread for the second 5-year adjustable rate term based on current market conditions.
- Adjust the monthly [Replacement Reserve](#) deposit to include required capital improvements during [Loan Years 6 through 10](#), plus 2 additional years, per the original [PCA Report](#).
- Not charge a [Prepayment Premium](#).

## 704.03 Prepayment Terms

### ☑ Requirements

If an ARM 5/5 Loan is renewed for an additional 5 years:

- no voluntary prepayment will be permitted during the 6th [Loan Year](#) (i.e., the 1st [Loan Year](#) of the second 5-year adjustable rate term); and
- the [ARM Loan](#) may be prepaid after the 6th [Loan Year](#) with a 1% [Prepayment Premium](#), but no [Prepayment Premium](#) is due
  - during the last 3 months of the loan term, or
  - if the [ARM Loan](#) converts to a fixed rate [Mortgage Loan](#).

The following table describes various situations and the applicable prepayment provisions for the second 5-year adjustable rate term for an ARM 5/5 Loan; see [Part V, Chapter 2: Reporting and Remitting, Section 213: Prepayment Premium Sharing for Prepayment Premium calculations and sharing between you and Fannie Mae](#).

Situation	Prepayment Provisions
ARM 5/5 Loan is renewed for a second 5-year adjustable rate term.	Borrower does not owe a <a href="#">Prepayment Premium</a> .



Situation	Prepayment Provisions
Borrower attempts to make a voluntary prepayment during the 6th Loan Year.	Borrower may not make a voluntary prepayment during the 6th Loan Year (i.e., a voluntary prepayment is locked out).
ARM 5/5 Loan converts to a fixed rate Mortgage Loan after the 6th Loan Year.	Borrower does not owe a Prepayment Premium.
Borrower makes a voluntary prepayment after the 6th Loan Year and before the 3 months prior to the extended Maturity Date for any reason other than a casualty or condemnation.	Borrower owes a Prepayment Premium.





## Chapter 4 Asset Management: Loan Document Administration

### Section 401 Servicing Requirements

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#### 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 non-delegated 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

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Fannie Mae may provide the [Servicer](#) with a [Limited Power of Attorney](#) conferring the right to execute certain documents as attorney-in-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

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### 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

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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

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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

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#### 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 201: Market 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

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### **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: Inspections and Reserves, Section 403: 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**.

## **408.03E** 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: <ul style="list-style-type: none"> <li>• low-flow water fixtures; or</li> <li>• lighting improvements.</li> </ul>	Servicer must ensure the inspector is either a qualified third-party or Servicer staff per Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocol and Part V, Chapter 5: Surveillance, Section 502.05A: Qualifications.
Complex	Upgrades and changes to building systems, such as: <ul style="list-style-type: none"> <li>• heat recovery ventilation systems; or</li> <li>• boiler controls.</li> </ul>	<ul style="list-style-type: none"> <li>• For Solar PV System Efficiency Measures, the Servicer must retain a               <ul style="list-style-type: none"> <li>- Solar Technical Consultant per Part III, Chapter 4: Green Mortgage Loans, Section 401.03: Technical Solar Report, or</li> <li>- qualified PCA High Performance Building Consultant per the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099).</li> </ul> </li> <li>• For other Efficiency Measures, the Servicer must retain a qualified PCA High Performance Building Consultant per Form 4099.</li> </ul>

### 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](#).

#### **408.04C** 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 style="list-style-type: none"><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 style="list-style-type: none"><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>
More than 5 Years	The new PCA may be waived for 5 years for a Mortgage Loan with a: <ul style="list-style-type: none"><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. Streamlined PCA Permitted Delivery and Payment of Property Condition Assessment**

The Servicer may use Streamlined PCA Guidance (Form 4099.A) if the most recent Property site inspection:

- was performed according to Part II, Chapter 4: Inspections and Reserves, Section 401: Site Inspection and Lease Audit;
- indicated an overall rating of 1 or 2; and
- did not reveal any adverse change in Property condition (except normal wear and tear) or life safety issues.

## **3. 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.

#### **408.04O** 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.

### 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 All Hedges

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 must not adjust the reserve.

The Servicer may refund to the Borrower any amount left in the reserve account after purchasing 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

At least 90 days before termination of an **Interest Rate Hedge**, the **Borrower** must give the **Servicer** written notice of its intent to either obtain a new **Interest Rate Hedge** or, for a variable rate **Credit Enhancement Mortgage Loan** or **Structured ARM Loan**, adjust the interest rate to a **Bond Reset Interest Rate** or fixed rate.

If the **Borrower** elects to obtain a new **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**, and review the **Loan Documents** for the timing requirements.





If the [Interest Rate Hedge](#) expires and the [Borrower](#) has 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

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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

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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** management agent 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

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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

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### 413.01 Property and Liability Insurance

The **Servicer** must:

- ensure that the **Property** is continuously covered by property and liability insurance, as required by **Part II, Chapter 5: Property and Liability Insurance**, and that all renewal premiums are paid in full and on time; and
- at least annually review the adequacy of the **Borrower's** insurance coverage in relation to the current requirements of **Part II, Chapter 5: Property and Liability Insurance**.

If the existing insurance coverage or policy is inadequate, the **Servicer** must require the **Borrower** to make appropriate changes. Periodically, the **Servicer** may be required to make certain representations to Fannie Mae regarding the property and liability insurance coverages and policies for all of the **Mortgage Loans** it services.

### 413.02 No Financing for Property and Liability Insurance Premiums

The **Servicer** must not provide financing to the **Borrower**, or otherwise permit the **Borrower** to obtain financing, in order to pay any insurance premiums, except as permitted by **Part II, Chapter 5: Property and Liability Insurance**.



### 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 as required by **Part II, Chapter 5: Property and Liability Insurance**. 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 policy must be in place within 45 days after the effective date of the remapping. 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 in 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.

### 413.04 Lender Placed Insurance

#### 413.04A Property and Liability Insurance

If the **Borrower** fails to obtain acceptable insurance coverage, the **Servicer** must immediately obtain acceptable insurance coverage for the **Property** at the **Borrower's** expense.

#### 413.04B Flood Insurance

If acceptable insurance coverage cannot be obtained, the **Servicer** must immediately contact **Multifamily Insurance** to determine the appropriate course of action.

#### 413.04C 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 501.02E: 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 pre-conditions 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.

#### **414.12C** 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

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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

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### **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 **Servicer** must refer to the applicable **Master Credit Facility Agreement**, **Bulk Delivery Agreement**, and other **Loan Documents** for specific requirements.

### **416.02**      Delegation of Decisions

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

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

Decisions and actions are not delegated to the **Servicer** when a 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;
- **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.

#### **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 in 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 the following are delegated to the [Servicer](#) to the extent delegated in this Chapter:

- [Letter of Credit](#) replacements and draws;
- 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;
- administering escrow accounts; and
- administering [Collateral Agreements](#).

If the [Servicer](#) has any questions regarding the need for Fannie Mae approval, the [Servicer](#) must contact [Multifamily Structured Asset Management](#) prior to proceeding.

#### **416.03** Approval Requests

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.

#### **416.04** Release and Substitution Requests



To the extent permitted by the provisions of the [Master Credit Facility Agreement](#), [Bulk Delivery Agreement](#), and the other [Loan Documents](#), [Borrowers](#) may have the ability to release or substitute collateral. These requests must follow the provisions of the [Loan Documents](#), and are not delegated under this Section.

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](#);
- for a [Credit Facility](#), the release price and calculations (calculated according to 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 amount of the release/substitution fees associated with the transaction;
- whether a prepayment or advance of funds is expected to 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 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 **Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit**. 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 interest rate hedges associated with the transaction in **MSFMS**.

#### **416.05** Borrow-Up (Future Advance) Requests

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

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:

- 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-Up** 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-Up** to close;
- whether the **Property** meets all conditions and compliance tests (e.g., **LTV**, **DSCR**, geographic/asset concentration) for a **Borrow-Up** per the applicable **Loan Documents**;
- a quote sheet;
- a **Sources and Uses** statement;



- any 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;
- 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/substitution occurs; and
- any other items required by the Loan Documents.

#### 416.06 Facility Revaluations

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 Servicer must promptly notify the Borrower of the revised cap rates, Property values, Allocable Facility Amounts, 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.

#### 416.07 Supplemental Mortgage Loans Not Permitted

Supplemental Mortgage Loans on Properties that are part of a Credit Facility or a Bulk Delivery 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.

#### 416.08 Additional Information

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 (**Note:** 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. Per the [Loan Documents](#), the [Servicer](#) must:

- receive from the [Borrower](#) a Supplemental Annual Loan Agreement Certification (Expanded Housing Choice) ([Form 6620.Supplemental.Expanded Housing Choice](#)), including:
  - a rent schedule or rent roll identifying all units where rent is paid using [Housing Choice Vouchers](#);
  - a report for all rental applications seeking to use [Housing Choice Vouchers](#), including:
    - the number of rental applications;
    - the current status; and
    - an explanation for all denied applications; and
  - for the first annual Certification, complete lease files for at least 25% of the tenants paying rent using [Housing Choice Vouchers](#);
- review [Form 6620.Supplemental.Expanded Housing Choice](#) and the rent roll for reasonableness and completeness, and notify Fannie Mae via a Borrower Request in the [MAMP](#) of any Certification issues, including non-delivery;
- within 30 days after receiving the first [Form 6620.Supplemental.Expanded Housing Choice](#), compare the [Housing Choice Voucher](#) lease files to the rent roll and notify Fannie Mae via a Borrower Request in the [MAMP](#) of any discrepancies;
- ensure the [Borrower](#) conducts any Fair Housing training required by Fannie Mae for its employees;
- submit a Non-Monetary Default Borrower Request in the [MAMP](#) if the required Fair Housing training is not completed within the required timeframe;
- notify the [Borrower](#) in writing of any default under the [Loan Documents](#) and any required recapture of the pricing



incentive;

- submit a copy of any [Borrower](#) notice for recapturing the pricing incentive via a Non-Monetary Default Borrower Request in the [MAMP](#); and
- retain in its [Servicing File](#), copies of:
  - [Form 6620.Supplemental.Expanded Housing Choice](#) and the rent roll;
  - the results of the rent roll and lease file review submitted with the first [Form 6620.Supplemental.Expanded Housing Choice](#); and
  - any [Borrower](#) notices required for:
    - Fair Housing training;
    - [Loan Document](#) default; or
    - pricing incentive recapture.

Fannie Mae:

- may conduct Fair Housing testing for a [Mortgage Loan](#) delivered with an Expanded Housing Choice pricing incentive;
- will notify the [Servicer](#) if the Fair Housing testing or any other information reveals the [Borrower](#) is not complying with [Part II, Chapter 1: Attributes and Characteristics, Section 101.02: Expanded Housing Choice](#); and
- for any noncompliance, may:
  - require the [Borrower's](#) employees to complete Fair Housing training; and/or
  - notify the [Borrower](#) it is in default and require the [Borrower](#) to repay the pricing incentive per the Multifamily Loan Agreement and Payment Guaranty (Pricing Incentive Recapture) ([Form 6020.PIR](#)).

#### **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 Restabilization 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

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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-Dedicated 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 Request in the MAMP;



- retain in the [Servicing File](#), copies of:
  - Modifications to Multifamily Loan and Security Agreement (Sponsor-Dedicated 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

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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](#) on-going 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

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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

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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

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### 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](#).