Fannie Mae

Multifamily Selling and Servicing Guide

Effective as of August 1, 2023

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Summary of Changes

HIGHLIGHTS
Effective for all Mortgage Loans as of August 1, 2023, Fannie Mae reinforced requirements for preventing, identifying, and reporting suspicious activity, including mortgage fraud and money laundering, throughout the Mortgage Loan term.

Primary Changes

- Reinforced requirements for you to establish and maintain effective procedures and controls, similar to those required by the Bank Secrecy Act, for preventing, identifying, and reporting potential mortgage fraud and other suspicious activity.
- Specified high risk Potential Red Flags for Mortgage Fraud and Other Suspicious Activity related to topics including, but not limited to:
  - counterparties;
  - Appraisals;
  - funds;
  - Property condition and inspections; and
  - financial statements and financing structure, etc.
- Clarified requirements to:
  - evaluate the red flags to determine if a plausible business explanation exists;
  - immediately report any unresolved red flags indicative of mortgage fraud or other suspicious activity to:
    - https://fims.my.salesforce-sites.com/MortgageFraudReport or (800) 232-6643; and
    - Lender Risk Management;
  - maintain all documentation relating to the potential mortgage fraud or other suspicious activity;
  - promptly provide all related documentation to Fannie Mae upon request; and
  - not provide Fannie Mae any information indicating whether you filed a Suspicious Activity Report (SAR) with the Financial Crimes Enforcement Network (FinCEN).
- Provided Multifamily BSA-AML Lender Guidance regarding identifying red flags and reporting

potential mortgage fraud and other suspicious activity.

Questions

If you have questions, please contact:

- the Fannie Mae Deal Team; or
- Lender Risk Management, at lender_risk_management@fanniemae.com.

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Requirements

~~Your risk assessment of the Borrower, Guarantor, Key Principals, and Principals~~You must ~~be based solely on objective credit standards.~~ :

- perform a risk assessment of the Borrower , Guarantor , Key Principals , and Principals based soley on objective credit standards; and
- ensure all:
  - Potential Red Flags for Mortgage Fraud and Other Suspicious Activity were evaluated; and
  - unresolved red flags were reported per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance.

Prohibited practices include:

- basing the risk assessment on any characteristic protected by any fair housing or fair lending law, including
  - race,
  - color,
  - religion,
  - sex,
  - handicap,
  - familial status, or
  - national origin of the prospective
    - Borrowers,
    - Guarantors,
    - Key Principals,
    - Principals,
    - Property occupants, or

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- residents of the Property's neighborhood; or

- using
  - unsupported assumptions,
  - personal opinions, or
  - unsupported perceptions.

Guidance

You should:

- Complete a credit review by analyzing information about their
  - organizational structure,
  - multifamily business experience and qualifications,
  - general credit history, and
  - current and prospective financial condition.
- Ensure ~~that~~ the financial strength, experience, qualifications~~,~~ ~~character~~, and credit history of the Borrower, Guarantor, Key Principals, and Principals support the size, complexity, structure, and risk of the transaction.

Section 302 Borrower Organizational Structure

302.01 Single-Asset Entity

Requirements

You must ensure that

- the Borrower is a domestic single-asset entity, and
- if the Borrower is ultimately owned by foreign persons or entities, it has at least 1 domestic tier of ownership.

Guidance

As you analyze the Borrower and its organizational documents to confirm that it is a single-asset entity, consider the following questions:

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- Can the Borrower acquire any additional real property, personal property, or assets?
- Can the Borrower participate in any business other than managing and operating the Property?
- Are the Borrower's assets or funds commingled with anyone else's? If so, can these assets or funds be separated and identified?
- Are the Borrower's financial statements, accounting records, and other organizational documents maintained with anyone else's?
- Except for the Mortgage Loan, has the Borrower assumed, guaranteed, or obligated itself to cover anyone else's liabilities?

Requirements

If the Borrower owns more than a single asset, the Borrower may still qualify as a single asset entity if you:

- Obtain an operating statement for each real property owned.
- Obtain proof that the Borrower has no existing debt secured by a Lien on any of the Borrower's real property, other than a Mortgage Loan purchased by Fannie Mae.
- Obtain proof that the Borrower does not have any direct or indirect equity interest subject to mezzanine financing.
- Ensure that the Loan Documents prohibit the Borrower from
  - acquiring any additional debt (except for supplemental debt on existing Fannie Mae loans),
  - increasing any existing debt, or
  - acquiring any additional real property.

Guidance

As you analyze the Borrower that owns more than a single asset, you should consider whether its other real estate assets are only

- multifamily properties, or
- other types of real estate that do not pose an environmental risk to the Borrower.

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302.02 Co-Tenant Borrowers

Requirements

You must ensure that any Co-Tenant Borrower meets these eligibility requirements:

- the Borrower has no more than 10 co-tenants;
- no co-tenant is an individual;
- each co-tenant is a single-asset entity complying with Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302.01: Single-Asset Entity; and
- each co-tenant has jointly and severally executed the Loan Documents.

302.02A Tenancy-in-Common Agreement

Requirements

You must ensure that a validly executed Tenancy-in-Common Agreement is in place prior to or at the Mortgage Loan closing.

You must review the agreement to ensure that:

- Each co-tenant is bound by the terms of the agreement.
- The Property has a manager of its day-to-day business and affairs, which can be
  - a single co-tenant (or the Key Principal of such co-tenant) known as the “co-tenant representative”, or
  - a validly-appointed property manager.
- Distributions to the co-tenant representative are subordinate to
  - all payments under any Mortgage Loan secured by a Lien on the Property, and
  - the terms and conditions of any such Mortgage Loan.

Guidance

As you analyze the Tenancy-in-Common Agreement, consider the following questions. The term “co-tenant” also includes any Key Principal who has the rights of the co-tenant.

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Representation

- Have the Co-Tenant Borrowers given the co-tenant representative the power to deal with the Lender through the Tenancy-in-Common Agreement or an irrevocable power-of-attorney?
- Has each Co-Tenant Borrower waived its right to reside in the Property?

Buy outs

- Does each Co-Tenant Borrower have buy out rights to any other co-tenant?
- Is each Co-Tenant Borrower financially able to buy out any other co-tenant?

Communication

- Does each Co-Tenant Borrower have a name, address, telephone number, and percentage of ownership interest listed?
- Has each Co-Tenant Borrower agreed to promptly notify all other Co-Tenant Borrowers and you if their address or telephone number changes?
- Has a single Key Principal of the co-tenant representative agreed to receive any communication from you on behalf of all Co-Tenant Borrowers?

302.02B Key Principal Execution of Guaranty

Requirements

You must ensure that:

- each Co-Tenant Borrower names at least 1 Key Principal; and
- if a Guaranty is required, each Key Principal must become a Guarantor and execute either a Non-Recourse Guaranty or Payment Guaranty.

302.03 Joint and Several Borrowers with Multiple Properties

Requirements

If a Mortgage Loan not in a Credit Facility is secured by multiple Properties and any Property is owned by a different Borrower, you must

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require each Borrower to:

- execute a single set of Loan Documents with joint and several liability for the Mortgage Loan;
- comply with the “single purpose entity” requirements per Modifications to Multifamily Loan and Security Agreement (Co-Borrowers) (Form 6274);
- be owned by the same Persons having the same percentage ownership interests (whether direct or indirect);
- be Controlled by the same Sponsor or Key Principal;
- execute Form 6274, restricting Property Transfer/Assumption or release during the Mortgage Loan term;
- execute an acceptable Contribution Agreement complying with Form 6274; and
- if separate Security Instruments are recorded to encumber Properties in different counties, execute separate Modifications to Security Instrument (Co-Borrowers) (Form 6322) for each Security Instrument.

Each Property securing the Mortgage Loan must:

- be in the same State; and
- comply with Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership.

Section 303 Key Principals, Principals, and Guarantors

☑ Requirements

For every Mortgage Loan, you must:

- Identify and underwrite any Guarantor and all Key Principals and Principals of the Borrower.
- Ensure the Guarantor
  - is not a foreign person or a foreign entity, and
  - either has an ownership interest in the Borrower or ensure that the Guarantor has adequate consideration to enter into the Guaranty.

You must identify the Principals based on the aggregate of all direct and

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indirect ownership interests in the Borrower held per the following table.

If the Borrower is a...	Then a Principal is...
General Partnership or Joint Venture	any general partner or joint venturer.
Limited Partnership	all general partners and any Person who owns a 25% or more limited partnership interest.
Privately-Held Corporation	any Person who owns 25% or more of the voting stock.
Limited Liability Company	all non-member managers, member-managers, and any Person who owns a 25% or more membership interest.
Trust (other than a Land Trust)	the grantor (if the trust is a revocable trust or if the grantor or settlor has retained powers), any Person who has a 25% or more beneficial interest in the trust, and any trustee.
Land Trust	any Person who owns a 25% or more beneficial interest in the land trust.

303.01 Entity Review

Guidance

When you review an entity, consider the following questions:

- Is it an existing entity (e.g., a corporation, limited liability company, limited liability partnership, or other acceptable structure) that is not newly formed?
- Is it a well-capitalized, stable, on-going business that would be expected to:
  - Remain financially healthy?
  - Support the Property?
  - Meet all Guarantor requirements and obligations under the Guaranty?
  - Have assets and net worth that are significantly greater than what would be minimally acceptable for an individual Key Principal?

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303.02 Fund

Guidance

When you review a fund, consider the following questions:

- What is the experience and performance history of the fund manager with similar funds?
- Can the fund raise equity from financially substantial investors?
- What is the performance of the fund?
- What is the leverage level of the fund?
- What is the net worth and liquidity of the fund?
- What is the type and quality of
  - the Property and market,
  - other existing properties and markets, and
  - any potential additional properties and markets targeted by the fund pursuant to its agreements?

Additionally, you should review the organizational documents and private placement memorandum (if applicable) for the following information:

- the fund's expiration date;
- any extension to the fund's existence and conditions to approve that extension; and
- the process for winding up the business affairs of the fund, including whether the fund is organized in a state that requires the orderly dissolution of investment funds, such as Delaware or Illinois.

Section 304 Financial Statements

Requirements

You must ~~obtain signed financial statements from all parties relevant to the Mortgage Loan.~~:

- obtain signed financial statements from all parties relevant to the Mortgage Loan; and
- ensure all:

- Potential Red Flags for Mortgage Fraud and Other Suspicious Activity were considered; and
- unresolved red flags were reported per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance.

If ~~these~~ the financial statements…	Then…
Are dated less than 12 months before the Commitment Date	You do not need a signed "no material adverse change" certification.
Are dated 12 – 24 months before the Commitment Date	You must include a signed certification dated within 30 days before loan application that states they have experienced no material adverse change to their financial condition.
Are dated more than 24 months old	You cannot use them.

For all financial statements, you must collect:

- A schedule of real estate owned by the party providing the financial statement, including the loan information (such as lender, DSCR, and maturity date) for all assets on the schedule.
- A listing of all other assets, including
  - notes receivable from related entities, and
  - an estimate of the market value of each asset and the basis for calculating value estimates.
- All liabilities and contingent liabilities, including
  - debts under lines or letters of credit,
  - personal guaranties,
  - unmet obligations to partnerships or other entities, and
  - other future obligations (describe the amount and timing of these).
- Any other factors that may impact the party’s financial position immediately or during the term of the Mortgage Loan (including any

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known threat of potential lawsuits that may arise from the parties' business operations).

Section 305 Multifamily Underwriting Certificate

Requirements

You must obtain the appropriate Multifamily Underwriting Certificate (Form 6460) from the Borrower and each Key Principal.

You must ensure that the Form 6460 is

- signed and certified as true, correct, and complete, and
- dated within 90 days before the Commitment date.

If the 90-day limit is exceeded, the Borrower and Key Principals must certify that there has been no material adverse change to the financial condition shown in the Form 6460.

You must keep a copy of the Form 6460 in your Servicing File.

Section 306 Fraudulent Conveyance

Requirements

You must not obtain a Commitment for any Mortgage Loan if you believe that the Borrower, Key Principals, Principals, or Guarantors intend to delay, hinder, or defraud creditors.

Guidance

To show that you have made the Mortgage Loan in good faith, consider the following questions:

- Have you carefully reviewed the facts so that you have a clear defense to potential fraudulent conveyance or fraudulent transfer claims?
- Have you obtained a Form 6460 that confirms the Borrower's good faith?

Section 307 Applicant Experience Check

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Requirements

For both initial applications, Supplemental Mortgage Loans, and any Transfer/Assumption, you must perform an ACheck™ and receive a "Continue Processing" response for

- the Borrower,
- each Key Principal of the Borrower,
- each Principal of the Borrower,
- each Guarantor, and
- any person who owns or controls an entity Key Principal.

Operating Procedures

Where can you find ACheck?

You can find the ACheck application at https://multifamily.fanniemae.com/applications-technology/acheck.

When do you use the ACheck application?

As soon as you receive an application request and the necessary tax identification numbers and/or social security numbers, enter the information into ACheck.

- If you have not yet identified all parties at this stage, you must enter all Key Principals, Principals, and Guarantors of the Borrower into ACheck as soon as you identify them.
- If more than 90 days pass between the initial ACheck and Commitment Date, you must repeat an ACheck.

How do you view ACheck results?

The ACheck application will provide either a “Continue Processing” or “Do Not Process” electronic response instantaneously.

- **“Continue Processing” Response**

You must receive a “Continue Processing” response in order to proceed with the application.

This does not mean that the Borrower, Key Principal, Principal, Guarantor, or Principal is approved; you are still required to complete full Mortgage Loan credit underwriting.

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■ **“Do Not Process” Response**

If you receive a response stating “do not continue processing an application for a Fannie Mae loan that involves this applicant” (or similar wording), then:

- Do not proceed with the application, and do not omit any Key Principal, Principal, or Guarantor for which a “Do Not Process” response was given.
- Use the “Do Not Process” response to indicate that you need to have direct communication with Fannie Mae.
- Follow the instructions provided by the ACheck application and contact Fannie Mae before proceeding to underwrite the Mortgage Loan.
- Never use the “Do Not Process” response as the sole reason for rejecting or denying credit in any cases not involving Fannie Mae.

You will not be provided any information as to why a particular Borrower, Key Principal, Principal, or Guarantor received a “Do Not Process” response.

What about confidentiality?

You must establish procedures to ensure that all ACheck responses obtained for Borrowers, Key Principals, Principals, and Guarantors are kept confidential.

Section 308 Compliance

Requirements

You must ~~confirm that~~establish and maintain effective procedures and controls, including employee training, similar to those required by the ~~Borrower~~Bank Secrecy Act.

You must prevent, ~~Key Principal, Guarantor~~identify, and ~~Principals:~~ report potential

- ~~Are not sanctioned or blocked by OFAC.~~
- ~~Do not exhibit “red flags” that indicate a high risk of money laundering.~~

- ~~Are not on the~~
  - ~~FHFA SCP List,~~
  - ~~HUD "Limited Denial of Participation, Funding Disqualifications and Voluntary Abstentions List," or~~
  - ~~GSA "System for Award Management (SAM)" Exclusion List.~~
- mortgage fraud, and
- other suspicious activity.

Fannie Mae will not purchase any Mortgage Loan with a Borrower, Key Principal, Principal, or Guarantor that is:

- ~~is~~ sanctioned or blocked by OFAC; or
- ~~exhibits "red flags" that indicate a high risk of money laundering; or~~
- ~~is~~ on the
  - FHFA SCP List,
  - HUD "Limited Denial of Participation, Funding Disqualifications and Voluntary Abstentions List," or
  - GSA "System for Award Management (SAM)" Exclusion List.

Operating Procedures

If you ~~find a "red flag" for money laundering~~identify Potential Red Flags for Mortgage Fraud and Other Suspicious Activity:

1. Do not inform the Borrower, any Borrower Affiliate, Key Principal, Principal, or Guarantor.
2. ~~Report all information that triggered the "red flag" to Fannie Mae to:~~
   - ~~https://fims.my.salesforce-sites.com/MortgageFraudReport or (800) 232-6643, and~~
   - ~~Lender Risk Management.~~
3. ~~Obtain Fannie Mae's written approval to Deliver the Mortgage Loan.~~

2. Evaluate the red flags to determine if a plausible business explanation exists.
3. Immediately report any unresolved red flags indicative of mortgage

fraud or other suspicious activity to:

- https://fims.my.salesforce-sites.com/MortgageFraudReport or (800) 232-6643, and
- Lender Risk Management.

4. Maintain all documentation relating to the potential mortgage fraud or other suspicious activity.
5. Promptly provide all related documentation to Fannie Mae upon request.
6. Do not provide any information to Fannie Mae that would indicate whether you have filed a Suspicious Activity Report (SAR) with the Financial Crimes Enforcement Network (FinCEN).

Section 309 Execution of Non-Recourse Guaranty

Requirements

You must obtain a Non-Recourse Guaranty from a Key Principal (the Guarantor) for any Mortgage Loan that has

- an Underwritten DSCR less than
  - 1.35 for fixed rate or
  - 1.10 for variable rate, or
- an LTV greater than 65%.

You do not need to obtain a Non-Recourse Guaranty if the Borrower is a Cooperative Organization or if the Key Principal (who would otherwise be the Guarantor) is a publicly traded entity.

Section 310 Conflict Mortgage Loans

310.01 Description

Requirements

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Conflict Mortgage Loan Type	
Conflict Mortgage Loan	• Any Mortgage Loan in which: - a Lender, any Lender Affiliate, or any Lender Senior Executive ▪ owns (or will own) any direct or indirect equity interest in the Borrower, or ▪ directly or indirectly controls the Borrower; or - any Lender employee, or group of employees, owns (or will own) more than a 5% direct or indirect equity interest in the Borrower. • Any Mortgage Loan with DLA Mezzanine Financing. Any equity interest you acquire in the Borrower relating solely to obtaining the associated LIHTCs is not considered when determining if the Mortgage Loan is a Conflict Mortgage Loan (see Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 709: LIHTC Properties – Lender Equity Interest).
Prohibited Conflict Mortgage Loan	Any Mortgage Loan in which • the Lender or any single Lender Senior Executive owns more than a 5% direct or indirect equity interest in the Borrower, • any group of Lender Senior Executives together owns more than a 10% direct or indirect equity interest in the Borrower, or • the Lender or any Lender Affiliate is the Property manager.

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Conflict Mortgage Loan Type	
Controlling Conflict Mortgage Loan	Any Conflict Mortgage Loan where: • the Lender - can (other than through the exercise of a lender's rights and remedies under the Loan Documents) require changes to the management, operations, or decision-making of the Borrower, the Key Principal, any Person holding a Controlling Interest in the Borrower or Key Principal, or any Principal or Guarantor, or - owns any Preferred Equity in the Borrower; • any Lender Affiliate or employee or group of employees of the Lender or any Lender Affiliate - can require changes to the management, operations, or decision-making of the Borrower, the Key Principal, any Person holding a Controlling Interest in the Borrower or Key Principal, or any Principal or Guarantor, - individually or together own a 25% direct or indirect equity interest in the Borrower or in any Person holding a Controlling Interest in the Borrower at or after loan origination (including any interest acquired as part of a Transfer/Assumption), - own any Preferred Equity in the Borrower, or - exercises rights under DLA Mezzanine Financing that results in a Controlling Conflict Mortgage Loan under these requirements; or • any Lender Senior Executive owns any direct or indirect equity interest in the Borrower.

You must not

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

310.02 Restrictions

310.02A Underwriting

Requirements

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

You must include the following in your Transaction Approval Memo:

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

In addition, your underwriting submission must include:

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

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- Lender Affiliate, and
- the percentage ownership of each entity.

Operating Procedures

You must designate the Mortgage Loan as a Conflict Mortgage Loan in C&D.

310.02B Servicing

Requirements

As Servicer of a Controlling Conflict Mortgage Loan, you must not

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

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

These servicing restrictions apply as long as the Mortgage Loan is considered a Controlling Conflict Mortgage Loan.

Operating Procedures

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

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servicing is transferred, you will retain your loss sharing obligation.

310.02C No First Right of Refusal

Requirements

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

310.02D Additional Disclosure

Operating Procedures

For an MBS backed by a Conflict Mortgage Loan, you must indicate in C&D

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

310.02E Notifications

Requirements

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

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Chapter 2 Valuation and Income

Section 201 Market and Valuation

201.01 Market Analysis

Requirements

You must:

- Evaluate the Property's market area, identifying its strengths and weaknesses.
- Take these characteristics into account when structuring the Mortgage Loan.

201.02 Appraisal

Requirements

You must ~~obtain an Appraisal that~~:

- ~~is prepared by a qualified, state-licensed or -certified appraiser;~~
- ~~conforms to the requirements in the USPAP; and~~
- ~~meets any governmental regulations in effect when the Mortgage Loan was originated, including the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.~~
- obtain an Appraisal that:
  - is prepared by a qualified, state-licensed or -certified appraiser;
  - conforms to the requirements in the USPAP; and
  - meets any governmental regulations in effect when the Mortgage Loan was originated, including the Financial Institutions Reform, Recovery, and Enforcement Act of 1989; and
- ensure all:
  - Potential Red Flags for Mortgage Fraud and Other Suspicious Activity were considered; and
  - unresolved red flags were reported per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance.

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201.02A Appraiser Role and Qualifications

☑ Requirements

You must:

- Provide the appraiser all documents needed to accurately assess Property's value.
- Ensure the appraiser:
  - completely and accurately describes the Property and the market;
  - provides an opinion of the Property's market value, supported by
    - market data,
    - logical analysis, and
    - sound professional judgment; and
  - uses an industry standard form of Appraisal that is appropriate for the size and structure of the Mortgage Loan.

When selecting an appraiser, you must document that the appraiser is licensed or certified, as appropriate, per applicable state law.

When using an appraiser, you must ensure the appraiser (whether third-party or in-house):

- acts independently;
- does not participate in the Mortgage Loan approval; and
- is not a member of the loan origination or underwriting staff.

201.02B Valuation Date

☑ Requirements

You must:

- update any Appraisal if the Appraisal Date is more than 6 months before the Commitment Date; and
- require a new Appraisal if the Appraisal Date is more than 12 months before the Commitment Date.

Guidance

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For an Appraisal dated less than 12 months before the Commitment Date, you may obtain an updated Appraisal that complies with USPAP guidelines, dated within 6 months of the Commitment Date.

201.02C Appraised Value

☑ Requirements

You must ensure the appraiser provides an opinion of the market value, on an "as is" basis, of:

- each separate Project per Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership; and
- the aggregate market value of all Projects.

You may also request the appraiser provide an opinion of the Property's market value on an "as completed" basis, but you must only use an "as completed" Appraisal for the opinion of Appraised Value if all of the following conditions apply:

- less than 12 months have passed between the Borrower's acquisition of the Property and the Commitment Date;
- for any capital improvements made after the Mortgage Loan Origination Date to be considered in an "as completed" Appraisal, they must be:
  - Immediate Repairs listed in the PCA; or
  - improvements identified by the Borrower, if you agree the improvements will add Property value;
- all capital improvements are included in either the
  - Completion/Repair Schedule, or
  - Rehabilitation Reserve Agreement;
- sufficient funds to complete all capital improvements are deposited into either the Completion/Repair Escrow or the Rehabilitation Reserve Account:
  - for capital improvements identified as Immediate Repairs, the funds must cover any higher funding percentage you require; and
  - for capital improvements identified by the Borrower, the funds must cover the estimated cost (including an allowance for cost overruns); and

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- all capital improvements are required to be completed in a timely manner:
  - those identified by the Borrower must be completed within 12 months after the Mortgage Loan Origination Date; and
  - for others identified as Immediate Repairs, a shorter time period may be required by Part II, Chapter 4: Inspections and Reserves, Section 403: Completion/Repairs.

201.03 Underwriting Value

Requirements

Your Underwriting Value must not exceed the Appraised Value, as reduced by any adjustments you deem necessary accounting for Property deficiencies that cannot be cured within 6 months after the Appraisal Date.

If less than 12 months have passed between the Borrower's acquisition of the Property and the Commitment Date, your Underwriting Value must not exceed the lower of the

- Appraised Value, or
- sum of the:
  - Property's acquisition price per the title company settlement statement;
  - cost of capital improvements or repairs that increase the Property's value, if
    - completed and fully paid, or
    - sufficient funds for completion are deposited in the Completion/Repair Escrow or reserve account; and
  - actual acquisition costs, not exceeding 3% of the acquisition price, including:
    - Origination Fee;
    - arm's length acquisition fee (generally 1% - 2%) paid to an unrelated Person if documented in the Settlement Statement;
    - third-party report fees;
    - Borrower-paid legal fees incurred on your behalf;

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- title search and title insurance fees;
- survey fees;
- real estate and stamp taxes;
- deed-recording fees; and
- credit report charges.

Guidance

Actual acquisition costs should exclude any prepaid operating expenses or deposits applied toward future operating expenses or Property improvements, including:

- prepaid or escrowed
  - real estate taxes, or
  - insurance premiums;
- prepaid
  - utilities,
  - Mortgage Loan interest, including any interest rate buydown expense,
  - rents, or
  - security deposits;
- funded
  - Completion/Repair Escrow,
  - Replacement Reserve,
  - Interest Rate Cap cost,
  - operating or Restabilization Reserve, or
  - Borrower-controlled Property operating or capital accounts;
- fees included in the Gross Note Rate, including any
  - Origination Fee, or
  - broker fee;
- acquisition fees paid to a Borrower-Affiliate; and

- for an MAH Property, pre-paid Bond-related and compliance monitoring fees.

Section 202 Income Analysis

202.01 Underwritten Net Cash Flow (Underwritten NCF)

Guidance

Underwritten NCF may

- differ significantly across assets, and
- will be driven by particular Property circumstances.

Therefore, when calculating the Property's Underwritten NCF, you should:

- Use objective measures to determine the revenue generated and the expenses incurred.
- Use the best information available, including historical performance and anticipated operations.
- Use best efforts to obtain operating statements for the prior 3 years.
- Obtain the prior full-year operating statement or, at a minimum, one covering the trailing 6 months (annualized).
- Consider if the Property can achieve the Underwritten NCF within 12 months after the Mortgage Loan Origination Date, absent unexpected market conditions or other unforeseen events.

You may:

- Rely, for acquisitions only, on the Borrower's budgeted operating statements.
- Calculate the Underwritten NCF more conservatively, if warranted by particular Property circumstances.

Requirements

You must use the following table to calculate Underwritten NCF for all Mortgage Loans unless another table is provided in the applicable Part III chapter based on the specific product.

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REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		
1		GROSS RENTAL INCOME – actual rents in place for occupied units, plus market rents for vacant units based on a current rent roll (multiplied by 12). The Property must have Stabilized Residential Occupancy by Qualified Tenants. If the Property is located in New York City and subject to the J-51 Tax Incentive Program where the Borrower has decontrolled rent-stabilized units (a Decontrol Event), you must adjust the current rents to reflect no rent decontrol benefits: • Calculate the base rent as the rent amount per unit prior to the Decontrol Event date. • Use the base rent for each applicable unit to determine the Gross Rental Income. • Increase the base rent by the appropriate percentage allowed per New York City Rent Stabilization laws per annum through the present rent roll date.
2	PLUS	To the extent deducted as an operating expense, rents for other non-revenue units (e.g., model units deducted in the “model apartment” operating expense in the “general and administrative” category, or actual rent from employee units deducted in the “employee” operating expense in the “payroll and benefits” category).
	EQUALS	GROSS POTENTIAL RENT (GPR)
3	MINUS	Premiums (e.g., identifiable additional income from furnished units or short term leases) and/or corporate premiums (e.g., identifiable additional income from corporate units, housekeeping services, etc.).
4	MINUS	Physical vacancy – market rents for vacant units based on a current rent roll (multiplied by 12).[1]

REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
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.[1]
6	MINUS	Bad debt - the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt.[1]
	EQUALS	NET RENTAL INCOME (NRI)[2]

1 The total of Items 4, 5, and 6 must equal the greater of

• the difference between the trailing 3-month net rental collections (annualized) and GPR, or
• 5% of GPR.

2 NRI must reflect projected operations for the underwriting period.

a. You must assess the NRI using these parameters and fully support any changes:

• Assess the individual month NRI within the prior full-year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized).
• If there are fluctuations, you may use an NRI that exceeds the trailing 3-month NRI, provided the NRI does not exceed the highest 1-month NRI used in the trailing 3-month NRI calculation.

b. You must assess declines in NRI using these parameters:

• Assess if any decline occurred in NRI for the trailing 3-month period compared to the trailing 6-month period and the trailing 12-month period.
• If the decline in NRI for the trailing 3-month period is greater than 2% compared to either the trailing 6-month period or the trailing 12-month period, you must adjust the NRI downward to an amount that is 2% less than the lowest NRI for the trailing 1-month, 3-month, 6-month, or 12-month period.
• You must make a minimum 2% adjustment to NRI; however, you are expected to make additional downward adjustments as appropriate to reflect current market conditions not reflected in historical operations.

CALCULATION OF OTHER INCOME

REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
7	PLUS	Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must: • be stable; • be common in the market; • exclude one-time extraordinary non-recurring items; and • be supported by prior years. 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 months (annualized). If there are fluctuations, you may use other income that exceeds the trailing 3-month other income (annualized), provided it does not exceed the highest 1-month other income used in the trailing 3-month other income calculation. When determining the other income, you must • adjust Items 8 through 12, and • include specific income for Items 13 through 15 when applicable.
CALCULATION OF COMMERCIAL INCOME		
8	PLUS	Actual income from leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 108: Commercial Leases.
9	PLUS	Actual income from STR units.
10	MINUS	10% of the actual commercial space income (total of Items 8 plus 9).[3]

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REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
11	PLUS	Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections.[3]
3 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.		
12	PLUS	Premiums, provided that the income must: • be stable or increasing; • be typical (in type and amount) in the market; • be supported by prior years; and • not exceed the income generated over the most recent year or trailing 12-month period.
13	PLUS	Corporate premiums, provided that this income must: • not be included for more than 10% of the Property's units; • be stable or increasing; • be typical (in type and amount) in the market; • be supported by prior years; and • not exceed the income generated over the most recent year or trailing 12-month period.
14	PLUS	Laundry and vending.
15	PLUS	Parking - income from residential parking/garage spaces.

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REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
16	PLUS	All other income, including the following: • application fees; • cable; • club house rental; • fees charged tenants for returned checks due to insufficient funds (NSF); • forfeited security deposits; • late fees; • miscellaneous; • non-refundable fees; • pet fees; • reimbursements; • storage; • temporary tenants; • utility; and • other. The following must not be included: • corporate tax and refunds; • delinquency; • Financial Accounting Standards Board 13 straight-line lease income; • gain on sale; • insurance proceeds; • interest income; • interest on security deposits; • mobile home sales; • partnership funds received; • sales tax collected; • security deposits collected; • security deposits returned; • straight-line lease income; and • tax reimbursement from real estate taxes.
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
CALCULATION OF OPERATING EXPENSES		

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REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
17	MINUS	Line-by-line stabilized operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a • lease-up, • rehabilitation, or • other short-term positive or negative factors. Non-recurring, extraordinary expenses must not be included. You must access: • past operating history; • the appraiser’s expense analysis; • all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and • the Borrower's budget (in the case of an acquisition). You must: • analyze historical operations at the Property; and • apply an appropriate increase over the prior year’s operations in determining an estimate; and • include all STR-related expenses in their respective expense line items, including - cleaning, - furnishing, and - repairs.

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REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
17(a)	MINUS	Property management fee equal to the greatest of: • 3% of EGI[4]; • actual property management fee (exclude any portion of a non-arm's length property management fee that is subordinated to the Mortgage Loan); or • market property management fee.
4 Minimum property management fee may be 2.5% of EGI (rather than 3% of EGI) provided that the: • underwritten management fee is at least $300 per unit; • actual management fee is equal to or less than the underwritten management fee; • Mortgage Loan has an original principal amount greater than $3 million; and • market management fees support the underwritten management fee for similarly sized properties.		

REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
17(b)	MINUS	Real estate taxes based on the greatest of: • actual future tax bill(s) covering a full calendar year; • prior full year's taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or • in California, the sum of: - any special assessments; plus - the millage rate multiplied by the greater of the ▪ Mortgage Loan amount, or ▪ assessed value. You must: • consider any automatic tax reassessment upon acquisition in the next 12-month period; and • for any tax abatement, exemption, deferral, or PILOT expiring within 36 months after the Mortgage Loan Origination Date, underwrite fully assessed real estate taxes. If the Property has real estate tax abatements, exemptions, deferrals, or PILOTs, they must: • be in effect at closing, per written documentation from the state or local tax assessor; and • survive a foreclosure on the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, deferral, or PILOT (i.e., it is tied to the Property and not the owner).

REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
17 (b) continued	MINUS	If the timeframe for the real estate tax abatement, exemption, deferral, or PILOT is shorter than the Mortgage Loan term, or begins phasing out or expires within 5 years after the Maturity Date, you must consider: • a Bifurcated Mortgage Loan structure (i.e., 2 notes secured by a single first Lien Security Instrument); • an amortization schedule that accommodates the elimination of the abatement; or • providing clear justification and support in the refinance analysis.
17(c)	MINUS	Insurance equal to: • the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or • 110% of the current expense, for insurance policies with a remaining term less than 6 months.
17(d)	MINUS	Utilities, including the following: • building lights; • dumpster rental; • electricity; • fuel oil; • heat; • natural gas; • non-common area electric; • parking lot electric; • parking lot lights; • septic; • trash removal (including contract); • utilities; • vacant unit utilities; and • other.

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REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
17(e)	MINUS	Water and sewer.

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REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
17(f)	MINUS	Repairs and maintenance, including the following: • appliances; • building; • carpet; • cleaning; • common area maintenance; • decorating; • electrical; • elevator; • equipment repairs; • exterminating services; • floor covering replacement; • HVAC; • janitorial; • landscaping (exterior); • landscaping (interior/plants); • lawn and grounds; • lock/keys; • maid service; • make ready; • mechanical; • painting; • parking lot; • parking lot lighting repair; • pest control; • plumbing; • pool; • rubbish removal; • scavenger; • snow removal; • supplies; • supplies (cleaning); • turnover; • vacancy preparation; • water irrigation; • water treatment; • window covering repair/replacement (minor); and • other.

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REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
17(g)	MINUS	Payroll and benefits, including the following: • 401k; • bonuses; • contract labor (carpet cleaning); • contract labor (make ready); • contract work; • custodian salary; • employee benefits; • employee expense; • employee insurance; • FICA; • health benefits; • labor plumbing; • manager salaries; • payroll and benefits; • payroll and processing; • payroll taxes; • salaries; • salaries maintenance; • security personnel’s salary; • subcontracted labor; • temporary help; • unemployment insurance; • worker’s compensation; and • other.

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REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
17(h)	MINUS	Advertising and marketing, including the following: • apartment finder/guide; • banners; • brochures; • building signage; • finder's fee; • media commissions; • newspaper ads; • promotions; • resident relations; • signage; • supplies (marketing); • tenant relations; • Yellow Pages; and • other.
17(i)	MINUS	Professional fees, including the following: • accounting or tax preparation fees; • architectural fees; • attorney fees; • bookkeeping fees; • engineering fees; • legal fees/expense; • professional fees; and • other.

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REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
17(j)	MINUS	General and administrative, including the following: • ad valorem tax; • administrative fee; • alarm system; • answering service; • auto leasing; • auto repairs; • bank charges; • broker commission/fees; • business license; • cable; • cell phone/pager; • commissions; • computer repairs; • courtesy patrol; • credit check; • donations; • education; • entertainment; • equipment lease/rental; • eviction expense; • fire extinguisher; • freight and shipping; • leased equipment; • leasing commissions; • leasing office expense; • licenses; • life safety;

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REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
17 (j) continued	MINUS	• mileage; • miscellaneous general and administrative expenses; • model apartment; • moving expense; • office supplies; • office unit (non-revenue unit); • permits; • personal property taxes; • postage; • printing; • public relations; • rental commissions; • rental expense; • security; • security vehicle and maintenance vehicle; • space designs and drawings; • subscription dues; • telephone; • travel; • truck repairs; • uniform service; • utility vehicle; • vehicle lease; • vehicle repair and expense; and • other.

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REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
17(k)	MINUS	Other expenses, including the following: • ancillary expense; • franchise taxes and fees; • general building; • miscellaneous; • on-going costs associated with any Interest Rate Cap Agreement; • other expenses/costs; and • for STR: - taxes, fees, etc. imposed by the governing jurisdiction; and - if applicable, the difference in actual lease STR income and an equivalent market rate apartment rent (as if leased as an apartment unit). For example, if actual lease STR income for a unit is $1,000 and market rate residential rent for that unit is $900, then deduct $1,200 ($1,000 - $900 = $100 x 12 months) as an other expense. Do not include the following: • amortization; • depreciation; • entity (i.e., filing, license, etc.); • financing fees; • initial or upfront costs associated with any Interest Rate Cap Agreement; • interest; • legal fees associated with securing Mortgage Loans; • life insurance; • owner's draw; • partnership fees; • principal payments on any loan; • sales tax paid; and • trust account fees.

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REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
18	MINUS	For a Condominium Property: • annual assessment fees, including any expected assessment fee escalation; and • any known special assessments.
19	MINUS	Ground rent for any Ground Lease or any master lease. Ground Lease bonus rent and/or escalations during the term of the Mortgage Loan must be considered when calculating Underwritten NCF and analyzing refinance risk.
	EQUALS	UNDERWRITTEN NOI
20	MINUS	Replacement Reserve expense, including a • minimum annual amount of $200 per unit, or • greater amount if required in Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve. Replacement Reserve expense must be included whether the escrow is funded or not.
	EQUALS	UNDERWRITTEN NCF

202.02 Underwritten DSCR

Requirements

You must calculate Underwritten DSCR per the following table.

Item	Function	Description
1		Underwritten NCF per Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF).

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Item	Function	Description
2	DIVIDED BY	Annual debt service for the Mortgage Loan amount. You must base debt service on a level debt service payment, including amortization, and the greater of the • actual note rate, or • required Underwriting Interest Rate Floor per Form 4660.

When calculating Underwritten DSCR for a Mortgage Loan with an interest-only period, you must use the same level debt service payment, including amortization, regardless of the length of the interest-only period.

The Underwriting Interest Rate Floor, if applicable, is the lowest interest rate you may use to determine the Mortgage Loan amount.

If the Gross Note Rate is below the required Underwriting Interest Rate Floor, per Form 4660, you must use the Underwriting Interest Rate Floor to establish the permitted Mortgage Loan amount.

All underwriting Tier requirements must be based on the Underwritten NCF.

Section 203 Refinance Risk Analysis

☑ Requirements

You must prepare an exit strategy analyzing the Borrower's ability to refinance the Mortgage Loan in the year after the Maturity Date (e.g., use the projected NCF in year 11 for a Mortgage Loan with a 10-year term), by c alculating a:

- “reversion” cap rate, which is the expected capitalization rate able to be supported per the projected NCF; and
- Refinance Interest Rate.

203.01 Base Assumptions

☑ Requirements

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For Loan Year 1, use the Underwritten NCF. For all subsequent Loan Years, you must derive proforma NCF as follows:

Factor	For...	Use...
Income Growth Rate	• Student Housing Properties, • Dedicated Student Housing Properties, • Structured Transactions, and • Mortgage Loans secured by multiple Properties	2%.
	Multifamily Affordable Housing Properties	an overall growth rate based on the proportion of restricted units (i.e., affordable at 80% AMI or less) and the proportion of unrestricted units, and using: • 2% for restricted units; and • the rent growth published in DUS Gateway for the Property's submarket for unrestricted units. For example, for a 100 unit Property, with 20 restricted units, and a 4% DUS Gateway submarket rent growth, the overall growth rate would be 3.6% or (20/100 x 2%) + (80/100 x 4%).
	All other Mortgage Loans	the rent growth published in DUS Gateway for the Property's submarket.

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Factor	For...	Use...
Economic Vacancy	All Mortgage Loans	the underwritten economic vacancy rate.
Real Estate Taxes	All Mortgage Loans	• for California: - acquisitions, use 2%; or - refinances, no trending is required until the year when the actual tax bill would surpass the underwritten taxes, then trend by 2%; and • for all other Mortgage Loans: - use 3%; or - if an abatement expires or taxes are expected to rise during the Mortgage Loan term, increase taxes to the expected level, then trend by 3%; or - if an abatement, exemption, deferral, or PILOT begins phase out or expires within 5 years after the Maturity Date, use fully assessed real estate taxes.
All Other Expense Growth Rate	All Mortgage Loans	3%.

You must estimate the Mortgage Loan UPB at the Maturity Date as follows:

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For...	Use...
Amortization	• 30 years, or • the amortization for the applicable product or features.
DSCR	The minimum Tier 2 DSCR for the applicable product or features, per Form 4660.
LTV	The maximum Tier 2 LTV for the applicable product or features, per Form 4660.

Guidance

Since these base assumptions are indicative only, you may use more conservative estimates if warranted by circumstances particular to the Property.

In most cases, the combined effect of principal amortization and NCF growth should result in a refinancing at the minimum DSCR and maximum LTV for Tier 2, using a reasonable interest rate.

You should consider the following refinance parameters:

- A target reversion capitalization rate at least 2.0% greater than the initial capitalization rate used for determining Underwriting Value.
- A Refinance Interest Rate at least 2.25% greater than the current 10-year Amortizing Nationwide Underwriting Floor rate, per Form 4660.

203.02 Alternative Assumptions

Guidance

If you determine the base assumptions do not appropriately estimate the Property's NCF over the Mortgage Loan term, you may present an alternative risk analysis using assumptions that deviate from the base assumptions.

You should:

- specifically identify and support any deviations with reliable evidence and historical and projected market trends; and
- state your conclusions and discuss any mitigating factors, such as the

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- strength of the Sponsor or the submarket,
- Property's characteristics, or
- Property's operating history and performance.

Income and Expense Growth Rates: Income and expense trending should incorporate projected market rates based upon general economic, market, and submarket conditions from reliable sources. For example:

- Rents on recently signed leases should only be used for estimating income growth in Loan Years 1 and 2.
- Rent projections greater than the Base Assumption Income Growth Rate should not be used beyond Loan Year 4.
- When improvements in market economic occupancy or sustained market rental rate increases are widely anticipated, growth trends above the Base Assumption Income Growth Rate may be supported.
- Projections of income growth resulting from Property renovations or improved operations should be limited to the first 3 Loan Years.
- When a Property is subject to a scheduled reassessment or a tax abatement phase-in period, tax expense should be adjusted appropriately.
- If a tax abatement, exemption, deferral, or PILOT begins phase out or expires more than 5 years after the Maturity Date, consider if the increased expense within 10 years after the Maturity Date may affect the Borrower's ability to refinance, and warrants
  - a lower Mortgage Loan amount,
  - faster amortization, or
  - a reduced interest only period.
- When you expect to incur costs for tenant improvement allowances and leasing commissions, or to realize rent increases from the rollover of tenants, commercial income should be adjusted appropriately.

Economic Vacancy: Properties in submarkets with depressed economic conditions due to temporary demand or supply issues may be modeled to reflect the economic vacancy projected by a reliable source. If you expect a decrease in vacancy to achieve stabilized levels, you should consider

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- the anticipated timing, and
- effect of decreased economic vacancy on projected income growth over the same time period.

Section 204 Cash Out Analysis

Requirements

You must:

- examine the risk of allowing cash out to the Borrower (see Form 4660 for a description of cash out transactions); and
- for New Construction, consider the Mortgage Loan amount relative to the Property's total development cost basis.

Guidance

When underwriting a cash out transaction you should consider:

- the amount of hard equity remaining in the Property, excluding prior permanent financing costs, such as interest or prepayment premium;
- the length of time the Borrower has owned the Property;
- the Property's effective age and current physical condition;
- any improvement in asset quality over the ownership period;
- any improvement in the Property's operations (i.e., its NCF) or value over the ownership period;
- if the Property's value increased due to an increase in NCF, rather than a decrease in the capitalization rate; and
- for New Construction, the Property's total development costs basis:

New Construction	
For...	The Property's total development cost basis includes...

New Construction	
Land	• Purchase price; plus • Value created since acquisition from - zoning changes, - demolition, - infrastructure improvements, - parcel assembly over time, and - other subjective entitlements. Note: Valuation should be supported by recent land sale activity on a market and cash basis.
Hard Costs	Expenses for: • items including - substructure, - shell, - interiors, - construction services, - equipment, and - furnishings; • developer fee (8% maximum); and • general contractor fee (10% maximum).
Soft Costs	Fees for: • appraisal, market studies, etc.; • professional services, including - architecture, - engineering, - consulting, - legal, and - accounting; • review, impact, and testing (i.e., surveys, feasibility, environmental, geotechnical); • building permits and utility access; and • any HUD and LIHTC processing.

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New Construction	
Construction Financing Costs	Expenses for: • construction loan financing, including - interest, and - origination fee; • construction period - real estate taxes, - insurance, and - utilities; and • Bond related fees.
HUD or LIHTC New Construction	Amount supported by the Cost Certification.

Cash Out Transaction Support	
Factor...	Should...
Cash Out Proceeds	Be commensurate with the length of the ownership period.
Property Condition	Have improved or been good over the ownership period.
Property NCF	Have improved over the ownership period.
Property Value	Have increased due to higher NCF over the ownership period.

Section 205 Rent-Stabilized Properties

Guidance

For Rent-Stabilized Properties (e.g., located in New York State), you should:

- underwrite Property income based on current rents;
- exclude any potential rent increase for units converting to market rate from the projected NCF in the refinance risk analysis;
- assess and stress the cap rate used to determine the Underwriting

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Value, and consider obtaining an Appraisal before Rate Lock;

- for fund Sponsors or other Sponsors requiring minimum investment returns, consider whether the Sponsor's interests are aligned with the limited rent increases allowed under the law; and
- fund the Replacement Reserve to maintain the Property's physical condition.

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Requirements

Before the Commitment Date, you must ensure:

- a physical inspection of the Property was performed by
  - you, or
  - a Non-Employee or Outside Party per the Program Rules;
- the MBA Standard Inspection Form was completed; and
- a lease audit was conducted reconciling the inspection findings with the
  - rent roll, and
  - lease terms.

You must:

- randomly select Property units for inspection; and
- not Deliver any Mortgage Loan secured by a Property that has an overall rating of 4 or 5 per the Comprehensive Assessment tab of the MBA Standard Inspection Form.

If the Property's rent roll indicates an inspected unit is occupied:

- the inspector must confirm the unit is occupied; and
- you must:
  - confirm the inspector's findings during your lease audit; and
  - complete a lease audit form or document your reconciliation of lease terms with the rent roll.

Guidance

When auditing the leases:

- include a:
  - minimum of 5 leases; and

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- maximum of the lesser of
  - 30 leases, or
  - 10% of the leases;

- at least 50% of the audited leases should include a combination of
  - inspected units,
  - recent renewals, and
  - newly signed leases sufficient to verify rent trends;
- if you detect material discrepancies during the initial review, increase the number of lease reviews;
- include a tenant file review; and
- review the cash ledger or receipts journal to validate rent collections.

Section 402 Property Condition Assessment (PCA)

402.01 When to Perform a PCA

Requirements

Before the Commitment Date, you must ~~complete a PCA for each Property unless it is a Supplemental Mortgage Loan that complies with Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402.05: Streamlined Underwriting.~~:

- complete a PCA for each Property unless it is a Supplemental Mortgage Loan that complies with Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402.05: Streamlined Underwriting; and
- ensure all:
  - Potential Red Flags for Mortgage Fraud and Other Suspicious Activity were considered; and
  - unresolved red flags were reported per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance.

402.02 Date of PCA Report and PCA Site Visit

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Requirements

A PCA Report (Form 4099) containing an HPB Module (or any standalone HPB Report) must be dated as of the date of the site visit by the PCA Consultant, and must be less than 6 months before the Commitment Date.

A PCA report that does not include an HPB Module may be dated up to 12 months before the Commitment Date if you:

- ensure a site visit is performed within 90 days before the Commitment Date; and
- confirm that there has been no material adverse change to the physical condition of the Property since the date of the PCA report.

402.03 Conducting the PCA

Requirements

When conducting the PCA, you must:

- comply with Form 4099, and order all applicable PCA modules;
- identify all conditions that impact resident safety, marketability, or value of the Property; and
- properly mitigate those conditions.

If you retain a PCA Consultant that does not meet the educational qualifications or professional certifications, registrations, or training required by Form 4099, you must:

- determine that the PCA Consultant is qualified based on their alternative qualifications; and
- attach your description of the PCA Consultant's qualifications to the final PCA.

You must have an annual quality control program to review

- the quality of the PCAs performed by your PCA Consultant, and
- your compliance with the requirements in this Section and the Form 4099.

Section 403 Completion/Repairs

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403.01 Property Evaluation

Requirements

You must determine whether the Borrower will need to fund the Completion/Repair Escrow by evaluating

- the physical condition of the Property,
- the financial condition of the Borrower, and
- all necessary life safety Completion/Repairs.

You must include the estimated expense of all Completion/Repairs with the cost of all other Rehabilitation Work to determine whether you need to follow the requirements of Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans for a Moderate Rehabilitation Property.

Guidance

The Completion/Repair Schedule should include:

- Property needs identified as Immediate Repairs in the PCA, including:
  - life safety repairs;
  - critical repairs;
  - deferred maintenance; and
  - short-term replacement of capital items; and
- any capital improvements not recommended by the PCA Consultant that
  - the Borrower will make after the Mortgage Loan Origination Date, and
  - you want the appraiser to include in its opinion of the market value of the Property on an "as completed" basis.

You should ensure that the Borrower completes the repairs and improvements identified on the Completion/Repair Schedule as outlined below.

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Type of item…	Complete as follows…
For items identified as life safety repairs in the PCA	Comply with Part II, Chapter 4: Inspections and Reserves, Section 403.03: Life Safety Issues.
For items identified as critical repairs in the PCA	Within 6 months after the Mortgage Loan Origination Date, or sooner if recommended by the PCA Consultant.
For items identified as repairs required to comply with the Americans With Disabilities Act in the PCA	Within 90 days or less per applicable laws, ordinances, or building codes.
For items identified as deferred maintenance or items of note in the PCA	Within 12 months after the Mortgage Loan Origination Date, or sooner if recommended by the PCA Consultant.
For items identified as short term replacement of capital items in the PCA	By the specific date recommended by the PCA Consultant, but may be longer than 12 months after the Mortgage Loan Origination Date.
For capital improvements that are • to be made by the Borrower in addition to those included on the PCA, and • are included in the Appraisal opinion of the market value of the Property on an “as completed” basis	Comply with Part II, Chapter 2: Valuation and Income, Section 201.02C: Appraised Value.

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Type of item…	Complete as follows…
For items identified as a Completion/ Repair by the PCA when the estimated expense requires you to comply with Part III, Chapter 3 for a Moderate Rehabilitation Property	Comply with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans.
For all other Rehabilitation Work that was not identified as a Completion/Repair by the PCA	Comply with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans.

403.02 Completion/Repairs Funding

Requirements

When full or partial funding of the Completion/Repair Escrow is required, you must complete the Completion/Repair Schedule.

Guidance

The amount funded into the Completion/Repair Escrow on the Mortgage Loan Origination Date should be at least 125% of the estimated cost of the required Completion/Repairs.

You may choose not to fund the Completion/Repair Escrow entirely if you determine the Borrower has the financial capacity to fully address all Completion/Repairs in the PCA.

Requirements

If you choose not to fund the Completion/Repair Escrow entirely, you must obtain written assurances from the Borrower in the Multifamily Loan Agreement that all necessary Completion/Repairs will be completed within a stated period of time following the Mortgage Loan Origination Date.

403.03 Life Safety Issues

Requirements

You must ensure that all life safety repairs and remediation work for code violations are included on the Completion/Repair Schedule.

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All life safety repairs must be completed

- for an acquisition, within 60 days after the Mortgage Loan Origination Date, or
- in all other cases, before delivering the Mortgage Loan to Fannie Mae.

Guidance

You should consider requiring an escrow deposit (for at least 125% of estimated costs) to cover these required Completion/Repairs.

403.04 Verifying Completion/Repairs

Requirements

You must verify that the Borrower has made all required Completion/Repairs

- whether the Completion/Repair Escrow was funded or not, and
- during your Property inspections before the required completion date.

Section 404 Replacement Reserve

404.01 Determining Replacement Reserve

Requirements

You must ensure that the Borrower has sufficient reserves to cover anticipated capital replacement and major maintenance costs. The total amount in the Replacement Reserve should equal or exceed the anticipated costs (adjusted for inflation) of all necessary capital item replacements and major maintenance needs and repairs for the period from the Mortgage Loan Origination Date to whichever is sooner:

- 2 years after the Maturity Date of the Mortgage Loan; or
- 12 years after the Mortgage Loan Origination Date.

In order to determine the minimum amount of the Replacement Reserve, you must:

- Obtain a PCA (Form 4099).

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- Complete the schedule of items to be included in the Replacement Reserve Schedule
  - using the cost estimates in the PCA, and
  - taking into account any items not already included on the Completion/Repair Schedule.

404.02 Replacement Reserve Funding

Requirements

You must ensure that the costs of all items included in the Replacement Reserve Schedule have been fully funded for

- any Tier 2 Mortgage Loan, and
- any Mortgage Loan, regardless of Tier, that requires Completion/Repairs costing more than
  - 4% of the Property's Underwriting Value for refinance transactions, or
  - 6% of the Property's Underwriting Value for acquisition transactions.

If you choose to modify the Loan Documents to not fund a Replacement Reserve for a Tier 3 or Tier 4 Mortgage Loan, you must use the appropriate Replacement Reserve Schedule.

Guidance

You may choose not to fund a Replacement Reserve for any Tier 3 or Tier 4 Mortgage Loan if

- the required Completion/Repairs do not exceed the levels specified in this Section, and
- you determine that the Borrower has the financial capacity to fully address future capital expenditures as outlined in the PCA.

404.03 Alternative Replacement Reserve Funding

Guidance

Instead of full funding, you may choose this alternative method for

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funding the Replacement Reserve.

☑ Requirements

If you choose this alternative funding, you must have the Borrower deposit the following amounts on the Mortgage Loan Origination Date:

- Monthly deposits for at least 2 years.
- For any significant capital item replacement or major maintenance need that you deem appropriate, an amount sufficient to cover anticipated costs for the period from the Mortgage Loan Origination Date to whichever is sooner:
  - 2 years after the Maturity Date of the Mortgage Loan; or
  - 12 years after the Mortgage Loan Origination Date.

You must hold these amounts in the Replacement Reserve for the entire term of the Mortgage Loan, and may not make them available for refund to the Borrower until the Mortgage Loan has been paid in full.

Section 405 Escrow Requirements for Taxes and Insurance

405.01 Escrows

☑ Requirements

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

405.02 Real Estate Tax Escrow Funding

➔ Guidance

You may choose not to fund monthly escrow deposits for real estate taxes for a Tier 3 or Tier 4 Mortgage Loan.

☑ Requirements

If you choose not to fund monthly deposits for real estate taxes then you must ensure all taxes are paid timely.

405.03 Insurance Escrow Funding

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Guidance

You may choose not to fund monthly escrow deposits for insurance premiums for a Tier 3 or Tier 4 Mortgage Loan.

Requirements

If you choose not to fund monthly deposits for insurance premiums, you must require the Borrower to provide annual proof of payment of all insurance premiums.

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Chapter 5 Surveillance

Section 501 Generally

Requirements

You must:

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

Section 502 Property Inspections

502.01 Forms

Requirements

For all Property inspections, you must use

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

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

Operating Procedures

On the MBA Standard Inspection Form, you must:

1. Select the “Fannie Mae Inspection” option on the Tools tab.
2. Complete the following tabs:
   - “General Information”;
   - “Physical Condition & Deferred Maintenance”;

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- “Photos”;
- ”Rent Roll”;
- “Management Interview”;
- “Multifamily”;
- “Fannie Mae Assessment Addendum”; and
- “Senior Supplement”, for Seniors Housing Properties.

3. Assign an overall rating per Fannie Mae’s Ratings Scale Definitions.

502.02 Property Condition Concerns

Operating Procedures

If the Property has...	You must...
• an inspection rating of 4 or 5 per the Fannie Mae Assessment Addendum tab of the MBA Standard Inspection Form; • incomplete repairs per the specified timing in the Loan Documents; • significant deferred maintenance; or • non-significant deferred maintenance that was not corrected within 12 months after notifying the Borrower.	• Inform Multifamily Inspections and Multifamily Loss Mitigation: - promptly after receiving notice of any Life Safety Issues per Part V, Chapter 5: Surveillance, Section 502.06F: Life Safety Issues; or - otherwise within 10 Business Days after becoming aware. • Reinstate any suspended Completion/Repair Escrow or Replacement Reserve if the Property inspection rating is 4 or 5, unless the rating resulted from a casualty loss (see Part V, Chapter 5: Surveillance, Section 502.06E: Collateral Analysis). • Inspect the Property as necessary to ensure the Borrower resolves any deferred maintenance. • Regardless of whether the Mortgage Loan is on a Watchlist, submit a request to Multifamily Loss Mitigation before ordering a PCA (excluding regularly-scheduled PCAs required per the Loan Documents). • Identify the appropriate Fannie Mae risk rating per Part V, Chapter 6: Watchlist Management.

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502.03 Property Inspection Protocol

Guidance

Property inspection frequency is based on

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

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

Operating Procedures

Property Inspection Protocol						
If the original Mortgage Loan Amount is greater than $30 million...						
			Number of Units to Inspect			
Type	**Fannie Mae Risk Rating**	**Inspection Frequency**	**%**	**Min/Max**	**Minimum # of Photos**	**Inspector**
All Mortgage Loans	• Pass, • Pass-Watch, or • Special Mention	Annual	5%	5/15	15	• Third-Party, or • In-House
	Substandard	Annual	10%	10/20	15	In-House Only
If the original Mortgage Loan Amount is greater than $6 million and less than or equal to $30 million...						
NOTE: DSCR is per the most recent annual financial statement submitted to Fannie Mae.						
			Number of Units to Inspect			
Type	**Fannie Mae Risk Rating**	**Inspection Frequency**	**%**	**Min/Max**	**Minimum # of Photos**	**Inspector**
Most Recent Inspection rating of 4 or 5	All Ratings	Annual	10%	10/20	15	In-House Only

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

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

502.04 Scheduling and Submissions

502.04A Scheduling

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Operating Procedures

You must:

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

Guidance

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

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

502.04B Submissions

Operating Procedures

You must:

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

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- Timely resolve all issues Fannie Mae identifies.

Guidance

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

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

502.05 Property Inspectors

502.05A Qualifications

Requirements

You must ensure any inspector:

- Meets 1 of the following:

  1. Is certified by the:

     - Real Estate Assessment Center for HUD as a Certified Home Inspector;
     - American Society of Home Inspectors (ASHI); or
     - International Association of Certified Home Inspectors (InterNACHI).

  2. Is a:

     - state-certified home inspector;
     - registered architect; or
     - civil engineer.

  3. Successfully completed other acceptable training, including the MBA's School of Multifamily Property Inspections.

- Has the following minimum experience:

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

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Type	Minimum Inspection Experience
All Others	10 multifamily property inspections

502.05B Third Parties

Requirements

Any third-party inspector must:

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

Guidance

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

502.06 Content

502.06A Unit Selection

Operating Procedures

When selecting units:

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

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Surveillance, Section 502.03: Property Inspection Protocol.

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

502.06B Photos

Operating Procedures

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

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

502.06C Interviews

Operating Procedures

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

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

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recent Property inspection were corrected.

502.06D Market Analysis

Operating Procedures

You must evaluate:

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

502.06E Collateral Analysis

Operating Procedures

If the Property needs repairs or maintenance:

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

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

Guidance

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

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

502.06F Life Safety Issues

Requirements

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

502.07 Quality Control

502.07A Program

Requirements

You must:

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

502.07B Inspection Form Retention

Operating Procedures

You must

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

502.07C Additional Inspections and Fees

Guidance

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

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

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

Section 503 Financial Analysis of Operations

503.01 Reporting

Requirements

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

Operating Procedures

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

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

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Item	Activity	You must...
3	Comment	Comment if: • the Mortgage Loan is on Fannie Mae's Watchlist; or • there is a: - greater than 20% variance from the same reporting period in the prior year for (per Form 4254.DEF) ▪ Effective Gross Income, ▪ total operating expenses, ▪ Gross Potential Rent, ▪ private pay, ▪ Medicare/Medicaid, ▪ repairs and maintenance, ▪ utilities, ▪ water and sewer, ▪ real estate taxes, or ▪ Property insurance; - greater than 10% variance in physical occupancy from the immediately preceding reporting period; - change in the Property's tax-exempt status; - change in the required P&I payments during a reporting period (e.g., interest-only to amortizing); - property management fee less than 3%; or - relevant change in the Property's financial performance.
4	Resolve	Timely resolve any quality control issues.

503.02 Quarterly Financial Analysis of Operations

Requirements

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

Operating Procedures

You must adhere to the following due dates:

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

Seniors Housing Property			
Reporting Quarter	**Period Covered**	**Reporting Due Date for Property with 12/31 Fiscal Year End**	**Reporting Due Date for Property with non-12/31 Fiscal Year End**
First	Trailing 3 months operating data covering the 1st quarter	June 15	45 days after 1st quarter end
Second	Trailing 3 months operating data covering the 2nd quarter	September 15	45 days after 2nd quarter end
Third	Trailing 3 months operating data covering the 3rd quarter	December 15	45 days after 3rd quarter end

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Seniors Housing Property			
Fourth	Trailing 3 months operating data covering the 4th quarter	March 15	45 days after 4th quarter end

Credit Facility or Bulk Delivery Property			
Reporting Quarter	**Reporting Period**	**Reporting Due Date for Property with 12/31 Fiscal Year End**	**Reporting Due Date for Property with non-12/31 Fiscal Year End**
First	Trailing 3 months operating data: • Property level statements covering the 1st quarter; and • Deal level Structured Facilities Monitoring Narrative and Spreadsheet (Form 4801 and Form 4802).	June 15	45 days after 1st quarter end
Second	Trailing 3 months operating data: • Property level statements covering the 2nd quarter; and • Deal level Structured Facilities Monitoring Narrative and Spreadsheet (Form 4801 and Form 4802).	September 15	45 days after 2nd quarter end

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Credit Facility or Bulk Delivery Property			
Third	Trailing 3 months operating data: • Property level statements covering the 3rd quarter; and • Deal level Structured Facilities Monitoring Narrative and Spreadsheet (Form 4801 and Form 4802).	December 15	45 days after 3rd quarter end
Fourth	Trailing 3 months operating data: • Property level statements covering the 4th quarter; and • Deal level Structured Facilities Monitoring Narrative and Spreadsheet (Form 4801 and Form 4802).	March 15	45 days after 4th quarter end

All Others			
Reporting Quarter	**Period Covered**	**Reporting Due Date for Property with 12/31 Fiscal Year End**	**Reporting Due Date for Property with non-12/31 Fiscal Year End**
Second	2nd quarter year-to-date	September 15	45 days after 2nd quarter end

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All Others			
Third	3rd quarter year-to-date	December 15	45 days after 3rd quarter end

Guidance

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

503.03 Annual Financial Analysis of Operations

503.03A Reporting Period

Requirements

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

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

503.03B Submission

Operating Procedures

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

Annual Reporting Protocol		
For...	**Due Date**	**You must...**
First Year		

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Annual Reporting Protocol		
For...	**Due Date**	**You must...**
A Mortgage Loan Fannie Mae purchases on or before June 30	June 1 of the following year.	Annualize the operating data to represent 12 months of operations.
A Mortgage Loan Fannie Mae purchases on or after July 1	June 1 of the second year after purchase.	Submit 12 months of actual operating data.
Subsequent Years		
Every Property	• June 1 for a Property with a 12/31 fiscal year end, or • for a Property with a non-12/31 fiscal year end: - within 150 days after the fiscal year-end; and - submit a data change request via the MAMP to change the Borrower's fiscal year end.	Submit 12 months of actual operating data.

503.03C Annual Review

Operating Procedures

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

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

503.04 Waiver Request

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Operating Procedures

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

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

Section 504 Loan Agreement Compliance

504.01 Generally

Requirements

For all Mortgage Loans, you must

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

Guidance

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

504.02 Financial Reports and Information

504.02A Borrower and Guarantor Notices

Operating Procedures

You:

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

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504.02B Borrower Fails to Provide Guarantor Financial Reports

Operating Procedures

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

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

You must provide:

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

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

504.02C Review Financial Reporting

Operating Procedures

After reviewing the Borrower or Guarantor information:

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

504.02D Records

Requirements

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

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

Section 505 ~~OFAC~~ Compliance

Requirements

You must:

- maintain effective OFAC compliance procedures;
- ~~monthly screen all Persons per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance;~~

~~and~~

- ~~within 24 hours, report any sanctioned or blocked Person to Lender Risk Management.~~
- monthly:
  - screen the Borrower, Key Principal, Guarantor, and Principals for Potential Red Flags for Mortgage Fraud and Other Suspicious Activity; and
  - report all unresolved red flags per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance; and
- confirm the Borrower, Key Principal, Guarantor, and Principals are not:
  - sanctioned or blocked by OFAC; or
  - on the:
    - FHFA SCP List;
    - HUD "Limited Denial of Participation, Funding Disqualifications and Voluntary Abstentions List;" or
    - GSA "System for Award Management (SAM)" Exclusion List.

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- ## Bank Secrecy Act

  Financial Recordkeeping and Reporting of Currency and Foreign Transactions Act of 1970 (31 U.S.C. 5311 et seq.).

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