



Fannie Mae®

Multifamily Selling and Servicing Guide

Effective as of August 13, 2025

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Summary of Changes

HIGHLIGHTS
Effective for Mortgage Loans Committed as of August 13, 2025 , updated Part II, Chapter 4: Lease Audits, Inspections, and Reserves adding requirements and guidance for completing MBA Standard Inspection Forms.

Primary Changes

Updated Part II, Chapter 4: Lease Audits, Inspections, and Reserves:

- Section 401.03: Validating Rent Collections, Bad Debt, and Secondary Income, removing the requirement to include your lease audit form with underwriting documents in DocWay;
- Section 402.01: Physical Inspections, stating the MBA Standard Inspection Form:
 - must be completed accurately; and
 - permitting the General Information section to be completed by PCA Consultants;
- Section 403: Brokered Transactions, adding an exception for ordering a Brokered Transaction Inspection per Authorized Brokered Transaction Inspections ([Form 4229](#)); and
- adding a Glossary Term for Property Condition Rating.

Questions

Please contact Michael Harvey at (202) 752-1605, or michael_harvey@fanniemae.com, with any questions.



Chapter 4

Lease Audits, Inspections, and Reserves

Section 401

Lease Audit

401.01 Generally

Requirements

Before the [Commitment Date](#), you must:

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

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

When auditing the leases, you must:

- analyze the entire tenant file, including, whenever available
 - identification records,
 - verification of employment and income, and
 - credit verifications;
- audit leases for all inspected units;
- include new and recently renewed leases to verify rent trends;
- increase the number of leases reviewed if you find
 - material discrepancies, or



- lack of adequate documentation in the files;
- document your results in a lease audit form; and
- summarize the results in your Transaction Approval Memo, including any documents that were unavailable for review, and why.

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

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

401.02 Lease Audit Notification

☒ Requirements

Before the inspection, you must email the [Borrower](#) and management company:

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

401.03 Validating Rent Collections, Bad Debt, and Secondary Income

☒ Requirements

When validating rent collections, you must:

- review 1 of the following:
 - a cash ledger;
 - receipts journal;
 - at least 3 months of bank statements confirming the rent deposits; or
 - similar documents;
- meet with the site manager to obtain and discuss:
 - an accounts receivable report; or



- past rent due report;
- compile a lease audit form or record to validate the lease terms against the [Property's](#) rent roll; [and](#)
- ~~include your lease audit form with your underwriting documents delivered to DocuWay; and~~
- document your findings in the Transaction Approval Memo.

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

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

Guidance

You should confirm the management company uses:

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

You may obtain sample management company reports, such as

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

Section 402 Site Inspections

402.01 Physical Inspections

402.01A Generally



Requirements

You must:

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

[Guidance](#)

You may allow the [PCA Consultant](#) to complete the General Information tab of the [MBA Standard Inspection Form](#).

402.01B Selecting Units

Requirements

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

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



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

When choosing which units to inspect, you must:

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

402.01C Inspection Notification

☒ Requirements

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

- request access to units selected for inspection; and



- notify them that, if any selected units are unavailable, an additional 25% of the units required to be sampled per [Part II, Chapter 4: Lease Audits, Inspections, and Reserves, Section 402.01B: Selecting Units](#) must be inspected (e.g., for a 500 unit building requiring 40 units to be inspected, if selected units are unavailable, an additional 10 units must be inspected).

402.02 Capital Item Replacements

Requirements

For replacement of capital items, you must:

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

Transaction Approval Memo Documentation	
For...	You must document the...
Interior Unit Renovations	<ul style="list-style-type: none">• specific scope, and• estimated percentage of units updated.



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

Section 403

Brokered Transactions

Requirements

For any [Brokered Transaction](#), you must order:

- all third-party underwriting reports; and
- a [Brokered Transaction Inspection](#) per [Form 4229](#), unless the [Property](#) had an overall rating of 1 on your most recent inspection per [Part V, Chapter 5: Surveillance, Section 502: Property Inspections](#), for a:
 - [Supplemental Mortgage Loan](#), or
 - [Choice Refinance Loan](#).
 - [is newly constructed \(built within 2 years before the \[Commitment Date\]\(#\)\); or](#)
 - [had a \[Property Condition Rating\]\(#\) of 1 on your most recent inspection per \[Part V, Chapter 5: Surveillance, Section 502: Property Inspections\]\(#\), for a](#)
 - [Supplemental Mortgage Loan](#), or
 - [Choice Refinance Loan](#).

Operating Procedures

To obtain a [Brokered Transaction Inspection](#), you must:

- use a Fannie Mae-approved [Brokered Transaction](#) inspector



per [Form 4229](#);

- request an exterior inspection; and
- not discuss the [Property's](#) rating with the [Brokered Transaction](#) inspector.

Requirements

After receiving the [Brokered Transaction](#) Inspection report, you must:

- review
 - the [Brokered Transaction](#) Inspection report,
 - any required [PCA Report](#), and
 - the [MBA Standard Inspection Form](#);
- ensure all rating differences among these 3 reports are:
 - reconciled;
 - approved by your Chief Underwriter; and
 - documented in your Transaction Approval Memo; and
- not [Deliver a Mortgage Loan](#) if the [Brokered Transaction](#) Inspection's overall rating is 4 or 5.

You must:

- determine if any of these reports identifies
 - deferred maintenance,
 - near-term capital item replacement,
 - necessary life safety or critical repairs, or
 - major components exhibiting a declining trend;
- incorporate all associated costs into the
 - [Completion/Repair Schedule](#), or
 - [Replacement Reserve Schedule](#); and
- document the items in your Transaction Approval Memo.

Operating Procedures



At Delivery, upload the Brokered Transaction Inspection report to DUS DocWay.

Data Entry	
For...	You must complete the following data fields...
DUS Gateway	<ul style="list-style-type: none">• Broker/Correspondent Company Name; and• Broker/Correspondent Individual Name.
Acquisition Systems	<ul style="list-style-type: none">• Broker/Correspondent Company; and• fees paid to the Broker or Correspondent.

Section 404 Property Condition Assessment (PCA)

404.01 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; and
- ensure all:
 - Potential Red Flags for Mortgage Fraud and Other Suspicious Activity were considered; and
 - unresolved red flags were reported per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 310: Compliance.

404.02 Date of PCA Report and PCA Site Visit

☒ 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.

404.03 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 405 Completion/Repairs

405.01 Property Evaluation

Requirements

You must:

- assess the
 - [Property's](#) physical condition,



- Borrower's financial condition, and
- life safety Completion/Repairs;
- aggregate all Completion/Repairs expenses with the cost of all other Rehabilitation Work to determine if Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans also applies;
- include in the Completion/Repair Schedule:
 - Property needs identified as Immediate Repairs in the PCA, including:
 - life safety repairs;
 - critical repairs;
 - deferred maintenance; and
 - short-term replacement of capital items; and
 - any capital improvements not recommended by the PCA Consultant that
 - the Borrower will make after the Mortgage Loan Origination Date, and
 - you want the Appraiser to include in the Property's "as completed" market value; and
- ensure the Borrower completes the repairs and improvements identified on the Completion/Repair Schedule:
 - per the Completion/Repairs Timing table; and
 - assess any code violations and include them in the relevant category.

Completion/Repairs Timing	
For...	You must...
Life safety repairs in the PCA	Comply with Part II, Chapter 4: Lease Audits, Inspections, and Reserves, Section 405.03: Life Safety Issues.



Completion/Repairs Timing	
For...	You must...
Critical repairs in the PCA	Complete within 6 months after the Mortgage Loan Origination Date , or sooner if recommended by the PCA Consultant .
Repairs in the PCA required to: <ul style="list-style-type: none"> • comply with <ul style="list-style-type: none"> - the Americans With Disabilities Act, or - Fair Housing; or • resolve code violations 	Complete within 90 days or less per <ul style="list-style-type: none"> • applicable laws, • ordinances, or • building codes.
Deferred maintenance or items of note in the PCA	Complete within 12 months after the Mortgage Loan Origination Date , or sooner if recommended by the PCA Consultant .
Short-term replacement of capital items in the PCA	Complete by the specific date recommended by the PCA Consultant , but may be longer than 12 months after the Mortgage Loan Origination Date .
Capital improvements that <ul style="list-style-type: none"> • will be completed by the Borrower in addition to those in the PCA, and • are included in the Appraisal's "as completed" market value 	Comply with Part II, Chapter 2: Valuation and Income, Section 202.03A: Appraised Value .
Completion/Repairs in the PCA that require compliance with Part III, Chapter 3 for a Moderate Rehabilitation Property	Comply with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans .
All other Rehabilitation Work not identified as a Completion/Repair in the PCA	Comply with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans .



405.02 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](#).

405.03 Life Safety Issues

☑ Requirements

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](#).

405.04 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 406 Replacement Reserve

406.01 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](#).

To determine the minimum amount of the [Replacement Reserve](#), you must:

- obtain a [PCA](#) ([Form 4099](#)); and
- complete the schedule of items to be included in the [Replacement Reserve Schedule](#)
 - using the cost estimates in the [PCA](#), and
 - taking into account any items not already included on the [Completion/Repair Schedule](#).

406.02 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 refinances, or
 - 6% of the **Property's Underwriting Value** for **Acquisitions**.

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**.

406.03 Alternative Replacement Reserve Funding

➔ Guidance

Instead of full funding, you may choose this alternative method for funding the **Replacement Reserve**.

☑ Requirements

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

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

You must hold these amounts in the **Replacement Reserve** for the entire term of the **Mortgage Loan**, and may not make them available for



refund to the [Borrower](#) until the [Mortgage Loan](#) has been paid in full.

Section 407 Escrow Requirements for Taxes and Insurance

407.01 Escrows

☒ Requirements

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

407.02 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.

407.03 Insurance Escrow Funding

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.



Chapter 8 Cooperative Properties

Section 801 Description

☒ Requirements

A [Cooperative Property](#) is a multifamily residential property owned by a [Cooperative Organization](#).

Section 802 Eligible Mortgage Loans

☒ Requirements

Fannie Mae will only purchase a [Cooperative Mortgage Loan](#) if each shareholder or other equity owner in the [Cooperative Organization](#) is granted the right to occupy a unit in the [Property](#) under a proprietary lease or other occupancy agreement.

You must:

- Examine the organizational documents of the [Cooperative Organization](#).
- Ensure that the terms of these documents allow you to originate a Loan secured by the [Property](#) in compliance with the [Guide](#).
- Review the composition and experience of the [Cooperative Organization's](#) Board of Directors or managers.

802.01 Basic Conditions

☒ Requirements

You must ensure ~~for~~ all the following:

- The [Mortgage Loan](#) has a fixed rate.
- Any commercial lease is determined to be a [Material Commercial Lease](#) based on 5% or more of total gross income calculated on a [Cooperative Market Rental Basis](#).
- The [Property](#) is located in a [Cooperative Property Eligible Market](#) per Form 4660.
- ~~The [Property](#) has an overall condition of 2 or better, as shown on the Comprehensive Assessment Addendum tab of the [MBA Standard Inspection Form](#).~~



- The Property has a Property Condition Rating of 2 or better, per the MBA Standard Inspection Form.

802.02 Financial Conditions

☒ Requirements

You must ensure all of the following:

- You have reviewed at least 3 years of the Property's financial operations.
- The Property's financial operations achieved at least a 0.90 DSCR on an Actual Cooperative Property Basis for 2 of the previous 3 years.
- The Board of Directors or managers of the Cooperative Organization approve any increase in the Cooperative Maintenance Fee prior to closing; and any scheduled annual increase cannot exceed 10%.
- A Cooperative Property Sponsor may not own interests to occupy or lease more than 40% of the units in the Cooperative Property, unless the following criteria are met:
 - You deem the financial strength, experience, qualifications, and credit history of the Cooperative Property Sponsor acceptable, per the applicable provisions for Key Principals in Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals or Part III, Chapter 9: Small Mortgage Loans.
 - The Cooperative Organization consistently demonstrates sound financial operations and market acceptability.
 - There is no ongoing litigation between the Cooperative Organization and the Cooperative Property Sponsor.
 - The aggregate annual rental income from the Cooperative Property Sponsor-owned units is greater than the aggregate annual Cooperative Maintenance Fees on those units.

802.03 Property Management Conditions

☒ Requirements

You must ensure all of the following:



- Except for [Small Mortgage Loans](#), the [Property](#) must be managed by a property management company that currently manages:
 - at least 3 other [Cooperative Properties](#) in the same market as the [Property](#);
 - a minimum of 350 [Cooperative Property](#) units in the aggregate; and
 - another [Cooperative Property](#) of similar size to the [Property](#).
- For [Small Mortgage Loans](#), a [Property](#) with more than 25 units must be managed by a property management company with at least 3 years of experience managing a [Cooperative Property](#) of similar size.

➔ Guidance

The [Borrower](#) may manage a [Property](#) securing a [Small Mortgage Loan](#) with 25 units or less.

802.04 Other Considerations

➔ Guidance

A [Cooperative Mortgage Loan](#) does not have to comply with the following:

- identification of a [Key Principal](#) or [Principal](#) and the applicable related analysis and obligations per [Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals](#), or [Part III, Chapter 9: Small Mortgage Loans](#);
- [Ground Lease Rents](#) per [Part II, Chapter 1: Attributes and Characteristics, Section 104.02: Ground Lease Rents](#)
- [Minimum Occupancy](#) per [Part II, Chapter 1: Attributes and Characteristics, Section 105: Minimum Occupancy](#);
- [Occupancy](#) per [Part III, Chapter 9: Small Mortgage Loans, Section 903: Occupancy](#); and
- [Property Management](#) per [Part III, Chapter 9: Small Mortgage Loans, Section 906: Property Management](#).

Section 803

Underwriting

803.01 Financial Operation



Requirements

As part of your underwriting analysis, you must:

- Examine the year-to-date operational budget.
- Collect, review, and analyze audited financial/operating statements for the last 3 years of operations.
- Ensure that the average Cooperative Maintenance Fee Accounts Receivable for the last 3 years is less than 3% of the annual Cooperative Maintenance Fees.
- Ensure that the Cooperative Operating Reserve at closing is at least 10% of the annual Cooperative Maintenance Fees.

803.02 Property Valuation

Requirements

You must obtain an Appraisal per Part II, Chapter 2: Valuation and Income that provides a value of the Cooperative Property on a Cooperative Market Rental Basis for determining the LTV Ratio per Form 4660.

Guidance

You may obtain an Appraisal per Part II, Chapter 2: Valuation and Income that provides a value of the Cooperative Property on a Cooperative Gross Sellout Value basis.

803.03 Subordinate Debt

Requirements

You must ensure that any existing debt secured by a Lien on a Cooperative Property complies with Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402: Supplemental Mortgage Loans. You must also calculate the

- Underwritten DSCR per Part III, Chapter 8: Cooperative Properties, Section 804.02: Cooperative Market Rental Basis DSCR (Underwritten DSCR), and
- Actual Cooperative DSCR per Part III, Chapter 8: Cooperative Properties, Section 804.04: Actual Cooperative Property DSCR.



Section 804 Income Analysis

804.01 Cooperative Market Rental Basis NCF (Underwritten NCF)

☒ Requirements

You must review the projected operations of the Cooperative Property on a Cooperative Market Rental Basis (as reflected in the Appraisal).

You must ensure the Cooperative Market Rental Basis NCF includes the minimum economic vacancy and Replacement Reserve expense per the applicable Underwritten NCF calculation in Part II, Chapter 2: Valuation and Income or Part III, Chapter 9: Small Mortgage Loans.

804.02 Cooperative Market Rental Basis DSCR (Underwritten DSCR)

☒ Requirements

You must calculate Underwritten DSCR per the following table.

UNDERWRITTEN DSCR (COOPERATIVE PROPERTIES – COOPERATIVE MARKET RENTAL BASIS)		
Item	Function	Description
1		Underwritten NCF as calculated on a Cooperative Market Rental Basis.
2	DIVIDE D BY	<p>Annual debt service for the Mortgage Loan amount.</p> <p>You must base debt service on a level debt service payment, including amortization, and the greater of</p> <ul style="list-style-type: none">• the actual note rate, or• the required Underwriting Interest Rate Floor per Form 4660. <p>If the Property has subordinate debt, the debt service must include P&I to cover the maximum principal amount of the outstanding subordinate debt.</p>



804.03 Actual Cooperative Property NCF

Requirements

You must use the following table to calculate Actual Cooperative Property NCF.

REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		
1		GROSS RENTAL INCOME – current scheduled monthly Cooperative Maintenance Fees for all units (multiplied by 12).
2	PLUS	Income from Cooperative Organization -owned units equal to the lesser of <ul style="list-style-type: none">• actual rents in place for occupied units, plus market rents for vacant units, or• an equivalent Cooperative Maintenance Fee based on similar units in the Property (multiplied by 12).
3	PLUS	Proposed increase in annual Cooperative Maintenance Fee income.
	EQUALS	GROSS POTENTIAL RENT (GPR)
4	MINUS	Vacancy – included at Fannie Mae’s sole discretion for any Pre-Review Mortgage Loan .
	EQUALS	NET RENTAL INCOME (NRI)
CALCULATION OF OTHER INCOME		
5	PLUS	Actual other income (including any flip fees, sales fees, or any special assessments collected for operational expenses) as described in the applicable Underwritten NCF calculation detailed in Part II, Chapter 2: Valuation and Income , or Part III, Chapter 9: Small Mortgage Loans .
CALCULATION OF COMMERCIAL INCOME		



REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW		
Item	Function	Description
6	PLUS	Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable).
7	PLUS	Actual income from STR units.
8	MINUS	Commercial income economic vacancy – included at Fannie Mae’s sole discretion for any Pre-Review Mortgage Loan. A 10% vacancy rate must be applied to any STR income. ¹
1 If net commercial income is greater than 20% of EGI on a Cooperative Market Rental Basis, then reduce to 20% of EGI on a Cooperative Market Rental Basis.		
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
CALCULATION OF OPERATING EXPENSES		
9	MINUS	<p>Line-by-line stabilized operating expenses, including management fee and insurance. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by short-term positive or negative factors. Non-recurring, extraordinary expenses must not be included.</p> <p>You must assess:</p> <ul style="list-style-type: none"> • past operating history; • market expenses; • actual service contracts in place; and • the Property’s budget. <p>All expenses associated with STR should be underwritten in their respective expense line items.</p>



REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW		
Item	Function	Description
10	MINUS	<p>Real estate taxes based on the greatest of:</p> <ul style="list-style-type: none">• actual future tax bill(s) covering a full calendar year;• prior full year's taxes multiplied by 103%; or• in California, the greater of the assessed value or the Mortgage Loan amount, multiplied by the millage rate, plus any special assessments. <p>If the Property has real estate tax abatements, exemptions, or deferrals, they must:</p> <ul style="list-style-type: none">• be in effect at closing, per written documentation from the state or local tax assessor; and• survive a foreclosure of the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, or deferral benefit (e.g., it is tied to the operation of the Property and not the identity or structure of the owner). <p>If the timeframe for the real estate tax abatement, exemption, or deferral is shorter than the Mortgage Loan term, you must consider</p> <ul style="list-style-type: none">• 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.



REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW		
Item	Function	Description
11	MINUS	<p>All other expenses as described in Underwritten NCF calculation detailed in the applicable Part II, Chapter 2: Valuation and Income, or Part III, Chapter 9: Small Mortgage Loans, except for property insurance and management fees.</p> <p>For STR:</p> <ul style="list-style-type: none"> • any taxes or fees imposed by the local jurisdiction; and • if applicable, the difference in actual lease STR income and the Cooperative Maintenance Fee for similar units in the Property with a term of more than 30 days. For example, if actual lease STR income for a unit is \$1,000 and the comparable Cooperative Maintenance Fee for that unit is \$900, then deduct \$1,200 ($\\$1,000 - \\$900 = \\$100 \times 12 \text{ months}$) as an other expense.
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)
12	MINUS	Replacement Reserve expense – included at Fannie Mae’s sole discretion for any Pre-Review Mortgage Loan .
	EQUALS	ACTUAL COOPERATIVE PROPERTY NET CASH FLOW (ACTUAL COOPERATIVE NCF)

804.04 Actual Cooperative Property DSCR

☒ Requirements

You must calculate the Actual Cooperative Property DSCR per the following table.



ACTUAL COOPERATIVE PROPERTY DSCR		
Item	Function	Description
1		Actual Cooperative NCF per Part III, Chapter 8: Cooperative Properties, Section 804.03: Actual Cooperative Property NCF.
2	DIVIDE D BY	<p>Annual debt service for the Mortgage Loan amount.</p> <p>You must base debt service on a level debt service payment at the actual note rate, including amortization.</p> <p>Use interest-only payments only for a full-term interest-only Mortgage Loan.</p> <p>If the Property has subordinate debt, the debt service must include P&I to cover the actual UPB of the outstanding subordinate debt. Use interest-only payments only for full-term interest-only subordinate debt.</p>

Section 805

Limited Equity Cooperative Properties

Requirements

In addition to the rest of this Chapter, you must ensure that Limited Equity Cooperative Properties meet the following:

- **Cooperative Maintenance Fees:** You must ensure that:
 - monthly Cooperative Maintenance Fees are not more than 90% of comparable unit market rents; and
 - if there are restrictions from the HUD or others, then both HUD and the Limited Equity Cooperative Property's Board of Directors or managers must approve all Cooperative Maintenance Fee increases before the Commitment Date.
- **Cooperative Operating Reserve:** You must require a reserve equal to at least 6 months of P&I payments on the Mortgage Loan.
- **HUD IRP Loan:** You must require an IRP reserve equal to 2 months



of IRP payments for the life of the IRP Loan. The funds in the IRP reserve may only be used to compensate for late IRP payments.

- Actual Cooperative Property NCF: You must calculate Actual Cooperative Property NCF per [Part III, Chapter 8: Cooperative Properties, Section 804.03: Actual Cooperative Property NCF](#), but the following exceptions apply:
 - Economic vacancy: Use the greater of
 - 5%, or
 - the highest level experienced by the [Property](#) during the last 3 years.
 - Actual operating expenses: Equal to 103% of the previous year's operating expenses.
 - Replacement Reserve: Use the greater of
 - the scheduled [Replacement Reserve](#) per unit as determined by a [PCA](#), or
 - \$250 per unit per year.
- Unit Turnover: Total unit turnover must not be greater than 20%.
- Escrows: You must require monthly deposits for real estate taxes, insurance, and the [Replacement Reserve](#).
- Cooperative Property Sponsor: There must be no [Sponsor-owned](#) units.
- Property management experience: The property management company must have [Limited Equity Cooperative Property](#) management experience. If HUD restrictions are in-place, the firm must also have a history of successfully complying with HUD restrictions and reporting requirements.

Guidance

You should consider the following:

- Cooperative Operating Reserve: You may include a similar reserve held by another independent lender if the funds are released to you.
- Actual Cooperative Property NCF: 3% trending is not required for trailing 12-month or year-to-date annualized operating expenses.
- Unit Turnover: Unit turnover occurs when a shareholder or tenant



chooses to vacate a unit or terminate a lease during the past 3 years.



Chapter 9 Small Mortgage Loans

Section 901 Generally

901.01 Description

Requirements

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

Guidance

A [Small Mortgage Loan](#) may be underwritten per:

- Part I and this Chapter; or
- Part I and Part II, as for a conventional [Mortgage Loan](#).

901.02 Applicability

Requirements

You may use this Chapter to underwrite conventional [Mortgage Loans](#) and the following products:

- [MH Communities](#);
- [MAH Properties](#); and
- market rate [Cooperative Properties](#) that are not [Limited Equity Cooperative Properties](#).

Section 902 Key Principal Guaranty Obligation

Requirements

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

Section 903 Occupancy

Requirements

[Small Mortgage Loans](#) must achieve [Stabilized Residential Occupancy](#)



as follows:

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

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

Section 904

Corporate Leases; Leases to One Entity

Guidance

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

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

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

Section 905

Property Income Analysis

905.01 Small Mortgage Loan Underwritten NCF (Underwritten NCF)

Requirements

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

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



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

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

REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		
1		GROSS RENTAL INCOME – the lesser of <ul style="list-style-type: none">• actual rents in place, or• market rents for occupied units, plus market rents for vacant units based on a current rent roll (multiplied by 12).¹
2	PLUS	To the extent deducted as an operating expense, rents for other non-revenue units. For example: <ul style="list-style-type: none">• model units deducted in the “model apartment” operating expense in the “general and administrative” category;• owner-occupied units² deducted in the “general and administrative” category; and• employee units³ deducted in the “employee” operating expense in the “payroll and benefits” category.
	EQUALS	GROSS POTENTIAL RENT (GPR)
3	MINUS	Premiums and corporate premiums.
4	MINUS	Physical vacancy – market rents for vacant units based on a current rent roll (multiplied by 12). ⁴



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. ⁴
6	MINUS	Bad debt – the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt. ⁴
	EQUALS	NET RENTAL INCOME (NRI)
<p>1 (a) In the New York-Northern New Jersey-Long Island, NY-NJ-PA MSA, you may use actual rents in place plus projected increases for rent-regulated units that have rent increases scheduled before, or through, the first 12 months of the loan term. Any units subject to rent regulation on the Commitment Date must be treated as rent-regulated for this calculation even if converting to market rate after origination.</p> <p>(b) For Properties located in New York City that are currently subject to the J51 Tax Incentive Program, you must ensure that the Gross Rental Income is calculated per Item 1 in Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis.</p> <p>2 You must deduct owner-occupied units as an expense unless</p> <ul style="list-style-type: none"> • the Mortgage Loan is Tier 3 or Tier 4, or • the Property contains 24 or more units. <p>3 You must deduct as an expense the portion of the market rent used as employee compensation.</p> <p>4 The total of Items 4, 5, and 6 must be greater than or equal to</p> <ul style="list-style-type: none"> • 3% of GPR for the New York-Northern New Jersey-Long Island, NY-NJ-PA and San Francisco-Oakland-Fremont, CA, Metropolitan Statistical Areas (MSAs), if supported by market and property operations, or • 5% of GPR for all other MSAs. 		
CALCULATION OF OTHER INCOME		



7	PLUS	<p>Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must:</p> <ul style="list-style-type: none"> • be stable; • be common in the market; • exclude one-time extraordinary, non-recurring items; and • be supported by prior years. <p>You must assess the individual month's other income within the prior full-year operating statement; or at a minimum, an operating statement covering at least the trailing 6 month's (annualized).</p>
CALCULATION OF COMMERCIAL INCOME		
8	PLUS	Actual income from leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases .
9	PLUS	Actual income from STR units.
10	MINUS	10% of the actual commercial space income (total of Items 8 plus 9). ⁵
11	PLUS	Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections. ⁵
12	PLUS	Laundry and vending, and all other income per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis .
<p>⁵ If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.</p>		
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
CALCULATION OF OPERATING EXPENSES		



13	MINUS	<p>Line-by-line stabilized operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a</p> <ul style="list-style-type: none">• lease-up,• rehabilitation, or• other short-term positive or negative factors. <p>Non-recurring, extraordinary operating expenses must not be included.</p> <p>You must assess:</p> <ul style="list-style-type: none">• 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 (for an Acquisition). <p>You must:</p> <ul style="list-style-type: none">• analyze historical operations at the Property;• 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<ul style="list-style-type: none">- cleaning,- furnishing, and- repairs. <p>You cannot include any operating expense that reflects blanket or bulk discounts that benefit the Borrower or Key Principal (e.g., blanket property or casualty insurance policies, or utilities purchased in bulk). Operating expenses must reflect the Property expenses on a stand-alone basis.</p>
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14	MINUS	Property management fee equal to the greatest of: <ul style="list-style-type: none">• 3% of EGI;• actual property management fee, provided you<ul style="list-style-type: none">- exclude any portion of a property management fee that is subordinated to the Mortgage Loan, and- include any known contractual fee increases occurring over the next 24 months; or <ul style="list-style-type: none">• Appraiser's concluded market property management fee.
15	MINUS	Real estate taxes per Item 17(b) in Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF) .
16	MINUS	Insurance per Item 17(c) in Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF) .
17	MINUS	Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses as detailed in Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis .
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)



18	MINUS	<p>Replacement Reserve expense equal to the greatest of</p> <ul style="list-style-type: none">• \$200 per unit, if the Property's overall ratingCondition Rating is 1,• \$250 per unit, if the Property's overall ratingCondition Rating is 2,• \$300 per unit, if the Property's overall ratingCondition Rating is 3, or• the amount required per Part II, Chapter 4: Lease Audits, Inspections, and Reserves. <p>The Property ratings are the ratings reported on the Comprehensive Assessment Addendum ("Comp Assmt Addendum") tab of the MBA Standard Inspection Form.</p>
	EQUALS	UNDERWRITTEN NET CASH FLOW (UNDERWRITTEN NCF)

905.02 Underwritten DSCR

☒ Requirements

You must calculate Underwritten DSCR per the following table.

UNDERWRITTEN DSCR ^{1,2}		
Item	Function	Description
1		Underwritten NCF as calculated in Part III, Chapter 9: Small Mortgage Loans, Section 905.01: Small Mortgage Loan Underwritten NCF (Underwritten NCF).
2	DIVIDED BY	<p>Annual debt service for the Mortgage Loan amount.</p> <p>You must base debt service on a level debt service payment, including amortization, and the greater of</p> <ul style="list-style-type: none">• the actual note rate, or• the required Underwriting Interest Rate Floor.³



UNDERWRITTEN DSCR ^{1,2}		
Item	Function	Description
1		For a Small Mortgage Loan secured by an MAH Property underwritten per this Chapter, you must comply with the minimum DSCR requirement for an MAH Property per Form 4660 .
2		For shorter amortization terms, you must <ul style="list-style-type: none">• calculate the Underwritten DSCR based on the shorter period, and• comply with the minimum DSCR requirement per Form 4660. The mandatory NRI adjustments in Part II, Chapter 2: Valuation and Income , for Properties with declining NRI do not apply.
3		For a Small Mortgage Loan secured by an MAH Property underwritten per this Chapter, you must comply with the required Underwriting Interest Rate Floor for an MAH Property per Form 4660 .

Section 906 Property Management

Requirements

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

Similar in Size	Unit Range
Small Properties	<ul style="list-style-type: none">• 1 multifamily property with 5 – 50 units, or• concurrently owning or managing at least 10 single-family rental units.
Medium Properties	1 multifamily property with 51 – 100 units.
Large Properties	1 multifamily property with 101 or more units.

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

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



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

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

Guidance

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

A qualified on-site manager

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

Section 907 Property Condition

907.01 Lender's Site Inspection and Lease Audit

Requirements

You must:

- comply with Part II, Chapter 4: Lease Audits, Inspections, and Reserves, Section 401: Lease Audit; and
- not Deliver any Small Mortgage Loan if the Property's estimated



Completion/Repair costs are greater than 10% of the UPB.

907.02 Site Inspection by Borrower

☒ Requirements

You must ensure that the [Borrower](#) or the [Key Principal](#):

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

907.03 PCA

☒ Requirements

You must comply with [Part II, Chapter 4: Lease Audits, Inspections, and Reserves, Section 404: Property Condition Assessment \(PCA\)](#).

Section 908 Replacement Reserve

☒ Requirements

You must require either full funding or alternative funding (per [Part II, Chapter 4: Lease Audits, Inspections, and Reserves, Section 406.03: Alternative Replacement Reserve Funding](#)) of the Replacement Reserve for any [Tier 2 Small Mortgage Loan](#) on a

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

For all other [Small Mortgage Loans](#), you must determine whether to require funding of the [Replacement Reserve](#).

If you do not require full funding, then you and the [Borrower](#) must execute either

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



Section 909

Environmental Matters and Inspections

Requirements

Before the [Commitment Date](#), you must:

- Obtain an Environmental Screening of the [Property](#) using the ASTM E-1528 protocol.
- Perform a physical site inspection of the [Property](#).
- Notify the [Appraiser](#) of any Recognized Environmental Condition or “non-scope considerations” that would impact the value of the [Property](#).
- Determine if an [O&M](#) plan is appropriate to address a Recognized Environmental Condition.
- Determine if the state where the [Property](#) is located has an environmental super-lien statute, and ensure that the [Property](#) conditions are not likely to result in such a lien.
- Disclose any actual or suspected environmental conditions not disclosed in the [ESA](#).
- Evaluate the potential risk posed by any Recognized Environmental Conditions that could result in loss or liability to you, the [Borrower](#), the [Property](#), or Fannie Mae.
- Obtain a copy of any [Phase I ESA](#) that the [Borrower](#) has in its possession or can obtain.
- Determine, based on the findings of the environmental screening and analysis, whether a [Phase I ESA](#) is required and, if so, contract for the report.
- When indicated, contract for a [Phase II ESA](#).
- Disclose any knowledge of actual or suspected environmental problems.

Guidance

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

- the engineer conducting the [PCA](#);
- a qualified employee; or



- a qualified non-employee.

Operating Procedures

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

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

Section 910 Borrower, Key Principals, Guarantors, and Principals

Requirements

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

910.01 Borrower Organizational Structure

Requirements

Any individual [Borrower](#) must not be a [Foreign Person](#).

Although a single asset entity is preferred, the [Borrower](#) may be a multi-asset entity.

Guidance

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

910.02 Co-Tenant Borrowers

Requirements

If a [Co-Tenant Borrower](#) is not an individual or a trust holding title to



assets of an individual, each **Key Principal** must execute the applicable Guaranty per Part III, Chapter 9: Small Mortgage Loans, Section 902: Key Principal Guaranty Obligation.

A Co-Tenant Borrower must be

- an individual who is not a **Foreign Person**,
- a single-asset entity, or
- a multi-asset entity.

910.03 Key Principals

☑ Requirements

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

910.04 Principals

☑ Requirements

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

910.05 Financial Statements

☑ Requirements

You must:

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



910.06 Net Worth and Liquid Assets

Requirements

You must ensure that:

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

Guidance

You should:

- for net worth, consider the impact of current, long-term, and contingent liabilities compared to the **Small Mortgage Loan** amount; and
- for liquidity, exclude the following unless you have reasonable justification:
 - retirement funds (such as IRAs and 401Ks); and
 - promissory notes payable to the **Borrower** or a **Key Principal**, whether secured or unsecured.

Section 911 Credit Reports

911.01 Credit Report

Requirements

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

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



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

- Equifax;
- Experian; or
- TransUnion.

911.02 FICO Scoring

Requirements

You must ensure that all individual [Borrowers](#), [Key Principals](#), [Guarantors](#), and [Principals](#) meet the Minimum FICO Requirement in [Form 4660](#).

Guidance

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

If...	Then...
You obtain credit reports from 2 of the 3 credit information services for a Borrower, Key Principal, Guarantor, or Principal	Use the lower of the 2 scores.
You obtain credit reports from all 3 credit information services, for a Borrower, Key Principal, Guarantor, or Principal	Use the middle score.
A Small Mortgage Loan has multiple individual Borrowers, Key Principals, Guarantors, or Principals	Use the average of their respective FICO scores.

911.03 Reviewing the Credit Report

Requirements

You must analyze the credit report for each individual [Borrower](#), [Key Principal](#), [Guarantor](#), and [Principal](#).



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

Guidance

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

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



GLOSSARY

■ **Property Condition Rating**

An assessment of the [Property's](#) overall condition per the [MBA Standard Inspection Form](#), expressed on a scale from 1 (the best [Property Condition Rating](#)) to 5 (lowest [Property Condition Rating](#)).

Synonyms

[Property Condition Ratings](#)