



Fannie Mae®

Multifamily Selling and Servicing Guide

Effective as of August 22, 2023

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TABLE OF CONTENTS

Summary of Changes	5
Part III Chapter 9 Small Mortgage Loans	6
Section 901 Generally	6
901.01 Description	6
901.02 Applicability	6
Section 902 Key Principal Guaranty Obligation	6
Section 903 Occupancy	6
Section 904 Corporate Leases; Leases to One Entity	7
Section 905 Property Income Analysis	7
905.01 Small Mortgage Loan Underwritten NCF (Underwritten NCF)	7
905.02 Underwritten DSCR	13
Section 906 Property Management	14
Section 907 Property Condition	16
907.01 Site Inspection by Lender or Other Third Party	16
907.02 Site Inspection by Borrower	17
907.03 PCA	17
Section 908 Replacement Reserve	18
Section 909 Environmental Matters and Inspections	18
Section 910 Borrower, Key Principals, Guarantors, and Principals	20
910.01 Borrower Organizational Structure	20
910.02 Co-Tenant Borrowers	20
910.03 Key Principals	21
910.04 Principals	21
910.05 Financial Statements	21
910.06 Net Worth and Liquid Assets	21
Section 911 Credit Reports	22
911.01 Credit Report	22
911.02 FICO Scoring	23
911.03 Reviewing the Credit Report	23
Part IV Chapter 2 Rate Lock and Committing	25
Section 201 Pre-Commitment	25
201.01 Borrower Commitment	25
201.02 Trading Agreements	25
201.03 Trading Practices	26
Section 202 Obtaining a Rate Lock	28
202.01 Rate Lock Period	28
202.02 Rate Lock Amount	29
202.03 Locking the Rate	29
Section 203 Good Faith Deposits	30
203.01 Borrower Deposit	31
203.02 Minimum Good Faith Deposit	31
203.03 Good Faith Deposit and Breakage Fees	32



Section 204 Commitments	33
204.01 Submission	33
204.02 Confirmation	34
204.03 Modifications	34
204.03 A Change Requests	34
204.03 B Rate Lock Extensions	35
204.03 C Commitment Extensions	36
Section 205 ASAP Options	36
Part V Chapter 5 Surveillance	38
Section 501 Generally	38
Section 502 Property Inspections	38
502.01 Forms	38
502.02 Property Condition Concerns	39
502.03 Property Inspection Protocol	39
502.04 Scheduling and Submissions	42
502.04 A Scheduling	42
502.04 B Submissions	43
502.05 Property Inspectors	44
502.05 A Qualifications	44
502.05 B Third Parties	45
502.06 Content	45
502.06 A Unit Selection	45
502.06 B Photos	46
502.06 C Interviews	46
502.06 D Market Analysis	47
502.06 E Collateral Analysis	47
502.06 F Life Safety Issues	48
502.07 Quality Control	48
502.07 A Program	48
502.07 B Inspection Form Retention	49
502.07 C Additional Inspections and Fees	49
Section 503 Financial Analysis of Operations	49
503.01 Reporting	49
503.02 Quarterly Financial Analysis of Operations	51
503.03 Annual Financial Analysis of Operations	55
503.03 A Reporting Period	55
503.03 B Submission	56
503.03 C Annual Review	57
503.04 Waiver Request	57
Section 504 Loan Agreement Compliance	58
504.01 Generally	59
504.02 Financial Reports and Information	59
504.02 A Borrower and Guarantor Notices	59
504.02 B Borrower Fails to Provide Guarantor Financial Reports	59
504.02 C Review Financial Reporting	60



504.02 D Records	61
Section 505 Compliance	61
GLOSSARY	63



Summary of Changes

HIGHLIGHTS

Effective for Mortgage Loans Committed as of August 22, 2023, the Small Mortgage Loan amount was increased from \$6 million to \$9 million.

Primary Changes

Updated the following:

- Part III, Chapter 9: Small Mortgage Loans to increase the Small Mortgage Loan amount from \$6 million to \$9 million;
- Part IV, Chapter 2: Rate Lock and Committing to align the Minimum Good Faith Deposit and Rate Lock amounts to the increase; and
- Part V, Chapter 5: Surveillance to specify when Property inspections and quarterly operating statements are due.

Questions

Please contact Karla Borbon at karla_borbon@fanniemae.com with any questions.



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 \$69 million and.

Guidance

A Small Mortgage Loan may be underwritten per this Chapter:

- 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



REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
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 202: 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		



REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
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 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). 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 202: Income Analysis .
5 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.		
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
CALCULATION OF OPERATING EXPENSES		



REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
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 (in the case of 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>



REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
14	MINUS	Property management fee equal to the greatest of: <ul style="list-style-type: none"> • 3% of EGI; • actual property management fee (exclude any portion of a property management fee that is subordinated to the Mortgage Loan); or • market property management fee.
15	MINUS	Real estate taxes per Item 17(b) in Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF).
16	MINUS	Insurance equal to: <ul style="list-style-type: none"> • 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	MINUS	Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses as detailed in Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)



REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
18	MINUS	<p>Replacement Reserve expense equal to at least⁶</p> <ul style="list-style-type: none"> • \$200 per unit, for a Property with an overall rating of 1, • \$250 per unit, for a Property with an overall rating of 2, or • \$300 per unit, for a Property with an overall rating of 3. <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)

6 If a PCA was completed, the Replacement Reserve must equal the amount required per Part II, Chapter 4: Inspections and Reserves, subject to a minimum of \$200 per unit.

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).



UNDERWRITTEN DSCR ^{1,2}		
Item	Function	Description
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
<p>1 For a Small Mortgage Loan secured by an MAH Property underwritten per this Chapter, you must comply with the minimum DSCR requirement for an MAH Property per Form 4660.</p> <p>2 For shorter amortization terms, you must</p> <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. <p>The mandatory NRI adjustments in Part II, Chapter 2: Valuation and Income, for Properties with declining NRI do not apply.</p> <p>3 For a Small Mortgage Loan secured by an MAH Property underwritten per this Chapter, you must comply with the required Underwriting Interest Rate Floor for an MAH Property per Form 4660.</p>		

Section 906

Property Management

Requirements

To ascertain the property management requirements, you must determine how many years of experience, as of the [Commitment Date](#), the [Borrower](#) or any [Key Principal](#) has owning or managing [at least 1 multifamily property that is similar in size to the Property residential rental properties](#), based on the following:

Similar in Size	Unit Range
-----------------	------------



Small Properties	<p>5—50 units</p> <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	<p>non-Local Borrower.</p> <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 ~~have an office within 100 miles of the Property and~~ use a written management agreement that complies with Part II, Chapter 1: Attributes and Characteristics, Section 111: 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 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 Site Inspection by Lender or Other Third Party

Requirements

You must ensure:

- a physical inspection of the [Property](#) is performed (including any [Property](#) securing a [Small Mortgage Loan](#) that is also a [Choice Refinance Loan](#));
- the physical inspection addresses special hazards, zoning, building and fire code violations, and regulatory compliance per the Instructions for Performing a Multifamily Property Condition Assessment ([Form 4099](#));
- the person performing the inspection and completing the [MBA Standard Inspection Form](#) meets the requirements for a [PCA Consultant](#) per [Part II, Chapter 4: Inspections and Reserves, Section 402.03: Conducting the PCA](#), and is:
 - your employee;
 - an appraiser; or
 - a third-party inspector.

If a non-employee appraiser or other third-party inspector performs the physical inspection, you must also have an employee visit the [Property](#).

The site inspection must provide you with enough information to complete the [MBA Standard Inspection Form](#), including:

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



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

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

The date of the site inspection must meet the timing requirements for a **PCA** in **Part II, Chapter 4: Inspections and Reserves, Section 402: Property Condition Assessment (PCA)**.

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

- an overall rating on the **MBA Standard Inspection Form** that does not comply with **Part II, Chapter 4: Inspections and Reserves, Section 401: Site Inspection and Lease Audit**; or
- deferred maintenance with repair costs greater than 10% of the **UPB**.

907.02 Site Inspection by Borrower

Requirements

You must ensure that the **Borrower** or the **Key Principal**:

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

907.03 PCA

Requirements

A **PCA** is required:

- if the site inspection
 - notes structural or physical concerns, or
 - results in an overall rating of 3 being reported on the **Comp Assmt Addendum** tab of the **MBA Standard Inspection Form**; or
- when a **Replacement Reserve** is required per **Part III, Chapter 9: Small Mortgage Loans, Section 908: Replacement Reserve**.



→ Guidance

When a [PCA](#) is required, you may use:

- the Streamlined Property Condition Assessment Guidance (Form 4099.A), but the [PCA](#) must otherwise comply with Part II, Chapter 4: Inspections and Reserves, Section 402: Property Condition Assessment (PCA); and
- the Streamlined PCA Requirements (Form 4099.A) instead of the [MBA Standard Inspection Form](#), if you include the overall inspection rating as defined on the [MBA Standard Inspection Form](#).

Section 908 Replacement Reserve

Requirements

You must require either full funding or alternative funding (per Part II, Chapter 4: Inspections and Reserves, Section 404.03: 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** (if one was required);
- a qualified employee; or
- a qualified non-employee.

Operating Procedures

If a qualified individual performs the environmental screening and



analysis, you must:

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

Section 910 Borrower, Key Principals, Guarantors, and Principals

Requirements

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

910.01 Borrower Organizational Structure

Requirements

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

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

Guidance

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

910.02 Co-Tenant Borrowers

Requirements

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

A [Co-Tenant Borrower](#) must be



- an individual who is not a [Foreign Person](#),
- a single-asset entity, or
- a multi-asset entity.

910.03 Key Principals

Requirements

You must ensure that any individual [Key Principal](#) is not a [Foreign Person](#).

910.04 Principals

Requirements

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

910.05 Financial Statements

Requirements

You must obtain

- a schedule of owned real estate assets, and
- signed financial statements.

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

910.06 Net Worth and Liquid Assets

Requirements

You must ensure that:

- the combined net worth of the [Borrower](#) and all [Key Principals](#) equals or exceeds the original principal amount of the [Small Mortgage Loan](#); and
- the combined post-closing liquid assets (excluding any [Small](#)



Mortgage Loan cash-out proceeds) of the Borrower and all Key Principals equal at least 9 monthly payments of P&I on the Small Mortgage Loan.

Guidance

You should:

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

Section 911

Credit Reports

911.01 Credit Report

Requirements

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

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

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?
- ~~Do~~Did you consider any of the credit card or other unsecured debt balances ~~excessive~~?
- Have any tax liens been filed or reported within the previous 5 years?
- Have any discharged bankruptcies or mortgage foreclosures occurred within the previous 10 years?
- Are there any outstanding judgments or collections higher than \$5,000?



Chapter 2 Rate Lock and Committing

Section 201 Pre-Commitment

201.01 Borrower Commitment

Requirements

Before obtaining a [Rate Lock](#) or a [Commitment](#), you must:

- receive all required approvals for [Pre-Review Mortgage Loans](#), non-delegated pricing, and [Loan Document](#) modifications; and
- enter into a [Borrower Commitment](#) that:
 - requires a [Good Faith Deposit](#) to be collected per [Part IV, Chapter 2: Rate Lock and Committing, Section 203: Good Faith Deposits](#);
 - includes an early enough [Mortgage Loan Origination Date](#) for you to meet the [Delivery](#) deadline;
 - describes the [Prepayment Premium Option](#); and
 - if the [Mortgage Loan](#) is not originated, requires the [Borrower](#) to pay you for all liabilities, including an amount at least equal to your potential [Breakage Fees](#) under the [Rate Lock](#).

201.02 Trading Agreements

Guidance

For [MBS Mortgage Loans](#), you may

- sell the [MBS](#) to the [Multifamily Trading Desk](#), or
- undertake a [Lender-Arranged Sale](#).

Requirements

By entering into an [MBS](#) or cash trade with the [Multifamily Trading Desk](#), you agree to comply with the [Trading Practices](#) per [Part IV, Chapter 2: Rate Lock and Committing, Section 201.03: Trading Practices](#) (your “[trading agreement](#)” with the [Multifamily Trading Desk](#)).

Before you trade with a [Third Party MBS Investor](#), you must enter into a [Third Party MBS Trading Agreement](#).

You may not act as an agent for a principal for any [Rate Lock](#) with the



Multifamily Trading Desk or a Third Party MBS Investor.

201.03 Trading Practices

Requirements

You agree Fannie Mae:

- may decline to provide pricing or to participate in any trade you request with the [Multifamily Trading Desk](#);
- may close your trading account and your access to the [Multifamily Trading Desk](#) services at any time; and
- reserves the right to stop entering into [Rate Locks](#) at any time without prior notice (such as during periods of high market volatility), but will attempt to provide advance notice.

You must determine if there is a market for the [MBS](#) before seeking a quote from the [Multifamily Trading Desk](#) or [Third Party MBS Investor](#) for a non-standard [Prepayment Premium](#) or other structure.

Operating Procedures

Step	You must...
Before Rate Lock	
1	<ul style="list-style-type: none"> • Establish an asset counterparty account with the Multifamily Trading Desk and/or any Third Party MBS Investor. An asset counterparty account with the Multifamily Trading Desk must: <ul style="list-style-type: none"> - name the people you authorize to transact business on your behalf; and - include your address and wiring instructions. • Notify the Multifamily Trading Desk of any changes to the authorized people or account information.



Step	You must...
2	<p>Provide the Minimum Required Trade Information (including any Additional Disclosure items) to all potential Investors:</p> <ul style="list-style-type: none"> • Complete either: <ul style="list-style-type: none"> - Form 4097.Fixed– Multifamily Required Trade Information for Cash or MBS, for a fixed Rate Mortgage Loan; or - Form 4097.ARM– Multifamily Required Trade Information for Cash or MBS, for an ARM Loan, SARM Loan, or Hybrid ARM Loan. • Ensure any information you provide to potential Investors matches what you delivered to Fannie Mae.
3	<p>Inform any Third Party MBS Investor that Fannie Mae will securitize the Mortgage Loan if the Delivered Mortgage Loan Amount is within the delivery tolerance per Part IV, Chapter 4: Delivery, Section 405.01: Acceptability and Delivery Tolerance.</p>
4	<p>Ensure the Minimum Required Trade Information for MBS Mortgage Loans includes</p> <ul style="list-style-type: none"> • any Additional Disclosure per Part IV, Chapter 5: Purchase, Section 504.02: Additional Disclosure, and • any specific disclosures per the Additional Disclosure Guidance (Form 4098).
5	<p>Ensure, in the event of a conflict, the trade is controlled in this order of priority:</p> <ul style="list-style-type: none"> • Rate Lock; • any applicable Third Party MBS Trading Agreement; • all applicable provisions of Part IV; and • the Lender Contract.
6	<p>Comply with the Pricing Memo.</p>
7	<p>Collect the Good Faith Deposit from the Borrower.</p>



Step	You must...
8	Include the Minimum Required Trade Information in the Rate Lock confirmation.
After Rate Lock	
9	Within 1 Business Day after obtaining the Rate Lock, request a Commitment.
10	Before assigning any Rate Lock with the Multifamily Trading Desk, obtain Fannie Mae's consent.
11	Include Additional Disclosure items when requesting an MBS Commitment.
12	<ul style="list-style-type: none">• Before Delivery, inform the Investor of any changes in the Minimum Required Trade Information that occurred after Rate Lock.• Ensure the Delivered Mortgage Loan Amount is within the delivery tolerance per Part IV, Chapter 4: Delivery, Section 405.01: Acceptability and Delivery Tolerance.
13	Promptly inform Multifamily Acquisitions of any MBS Investor delivery contract disputes, including any failed Deliveries.

Guidance

For MBS Mortgage Loans, after the Security is delivered to the Investor, contact the MBS Investor hotline at 1-800-BEST-MBS with all subsequent Investor inquiries.

Section 202 Obtaining a Rate Lock

202.01 Rate Lock Period

Requirements

Your Rate Lock Period must be less than or equal to:

- 180 days for a fixed rate Mortgage Loan;
- 45 days for an ARM Loan or SARM Loan; or



- the period per the confirmed [Forward Commitment](#).

Guidance

For a [Choice Refinance Loan](#), you may obtain a [Rate Lock](#) up to 180 days before the [Prepayment Premium Period End Date](#) of the [Portfolio Mortgage Loan](#).

If Fannie Mae consents to a [Rate Lock Period](#) greater than 180 days, the [Multifamily Trading Desk](#) will be the only permitted [Investor](#).

Operating Procedures

After obtaining a [Rate Lock](#), the [Rate Lock](#) expiration date can only be extended per [Part IV, Chapter 2: Rate Lock and Committing, Section 204.03B: Rate Lock Extensions](#).

202.02 Rate Lock Amount

Requirements

The [Rate Lock](#) amount must:

- be based on a full underwriting of the [Mortgage Loan](#) per [Parts I, II](#), and the applicable products and features of [Part III](#); and
- equal the final [Mortgage Loan](#) amount, subject only to the delivery tolerance per [Part IV, Chapter 4: Delivery, Section 405.01: Acceptability and Delivery Tolerance](#).

202.03 Locking the Rate

Requirements

Before obtaining a [Rate Lock](#), you must

- determine the [Guaranty Fee](#) and [Servicing Fee](#), and
- comply with the [Trading Practices](#) per [Part IV, Chapter 2: Rate Lock and Committing, Section 201.03: Trading Practices](#).

By engaging with the [Multifamily Trading Desk](#) for a [Rate Lock](#), you agree

- to have all telephone conversations recorded, and



- that you are legally obligated to any [Rate Lock](#) made during these conversations.

When selling to the [Multifamily Trading Desk](#) or a [Third Party MBS Investor](#), you must agree on the

- [Pass-Through Rate](#),
- purchase price, and
- [Delivery](#) or purchase conditions.

Operating Procedures

For each sale type, follow this process:

Sale Type	Process
Lender Sale to Fannie Mae as MBS Investor	<ul style="list-style-type: none">• Contact the Multifamily Trading Desk for an MBS quote.• If the quote is accepted, you will receive the terms in an MBS trade confirmation from the Multifamily Trading Desk.• Promptly notify the Multifamily Trading Desk if you:<ul style="list-style-type: none">- find any errors in the confirmation;- do not receive a confirmation within 2 Business Days after Rate Lock execution; or- notice a conflict between the recorded telephone conversation and the confirmation.• For conflicts, the recorded conversation will establish the Multifamily Trading Desk MBS trade terms.
Lender-Arranged Sale	Confirm your Rate Lock accurately describes the MBS trade with the Third Party MBS Investor .
Lender Sale to Fannie Mae for cash	Contact the Multifamily Trading Desk for a cash quote.



Section 203 Good Faith Deposits

203.01 Borrower Deposit

Requirements

Before entering into a [Rate Lock](#), you must collect a [Good Faith Deposit](#) from the [Borrower](#) in the form of either cash or a letter of credit.

The [Good Faith Deposit](#) equals:

- the [Minimum Good Faith Deposit](#) per Part IV, Chapter 2: [Rate Lock and Committing](#), Section 203.02: [Minimum Good Faith Deposit](#); plus
- any additional deposit required by a [Third Party MBS Investor](#); plus
- any other deposit you require.

203.02 Minimum Good Faith Deposit

Requirements

Unless directed by Fannie Mae, you must determine the [Minimum Good Faith Deposit](#) as follows:

For a...	With a Rate Lock Period...	The Minimum Good Faith Deposit is...
Mortgage Loan with a Rate Lock amount of \$69 million or less	Less than or equal to 90 days	1% of the Rate Lock amount.
Mortgage Loan with a Rate Lock amount of more than \$69 million	Less than or equal to 90 days	2% of the Rate Lock amount.
Supplemental Mortgage Loan of any amount	Less than or equal to 90 days	2% of the Rate Lock amount.
Mortgage Loan or Supplemental Mortgage Loan of any amount	More than 90 days and less than or equal to 180 days	3% of the Rate Lock amount.



Mortgage Loan of any amount	More than 180 days for a non-Forward Commitment	The greater of • 3% of the Rate Lock amount, or • the amount approved by the Fannie Mae Deal Team.
Credit Enhancement Mortgage Loan of any amount	Per the Credit Enhancement Commitment Letter	1% of the Rate Lock amount.
For a Forward Commitment	Per the confirmed Forward Commitment	Equal to the Minimum Good Faith Deposit charged for the permanent Mortgage Loan.

➔ Guidance

If you accept a letter of credit for any portion of the Good Faith Deposit, you remain liable and responsible for all Breakage Fees.

You should:

- Ensure the letter of credit expiration date is at least 15 days after the
 - Rate Lock expiration date, or
 - Commitment expiration date.
- Extend the letter of credit expiration date after an extension of the
 - Rate Lock expiration date, or
 - Commitment expiration date.

203.03 Good Faith Deposit and Breakage Fees

Requirements

You must indemnify the Investor for all Breakage Fees.



Sale Type	Good Faith Deposit Control	The Breakage Fee equals...
Multifamily Trading Desk trades (MBS or cash)	You must hold the Minimum Good Faith Deposit.	The Minimum Good Faith Deposit per Part IV, Chapter 2: Rate Lock and Committing, Section 203.02: Minimum Good Faith Deposit.
Lender-Arranged Sales	You must comply with the Third Party MBS Trading Agreement.	The amount per the Rate Lock and Third Party MBS Trading Agreement.

Unless applied to Breakage Fees, you must refund the Good Faith Deposit to the Borrower

- no earlier than the Mortgage Loan Origination Date, and
- within a commercially reasonable time period after Fannie Mae purchases the Mortgage Loan, per Part IV, Chapter 5: Purchase.

Section 204 Commitments

204.01 Submission

Requirements

You must request the Commitment by 3:30 p.m. Eastern Time on the Business Day after the date the Rate Lock is executed.

After a Commitment is confirmed, you must not

- replace or substitute any Property securing the Mortgage Loan, or
- assign the Commitment.

Guidance

Fannie Mae reserves the right to reject any Commitment request.

Each Commitment is issued for a single Mortgage Loan, but a Mortgage Loan may be secured by 1 or more Properties.



Operating Procedures

To request a [Commitment](#), perform the following, as applicable:

For...	Process
All Mortgage Loans	<ol style="list-style-type: none"> 1. Enter all information into C&D per the screen instructions and C&D User Manual. 2. Coordinate with Multifamily Acquisitions to resolve any submission problems or discrepancies.
MBS Mortgage Loans	<ol style="list-style-type: none"> 1. Identify any special characteristics requiring Additional Disclosure. 2. Comply with Part IV, Chapter 5: Purchase, Section 504.02: Additional Disclosure and Form 4098.

After the [Commitment](#) is in a “submitted” status in [C&D](#), you cannot change it.

If Fannie Mae determines any [Commitment](#) terms are incorrect or invalid, you will be directed to make necessary changes.

You must notify the [Investor](#) of the changes.

204.02 Confirmation

Requirements

Upon confirmation, you must [Deliver](#), and Fannie Mae must purchase, the [Mortgage Loan](#) according to the [Commitment](#).

Guidance

After Fannie Mae confirms the [Commitment](#), you may use the confirmation to secure warehouse financing.

204.03 Modifications

204.03A Change Requests

Operating Procedures

After confirmation, if you believe the [Commitment](#) is incorrect, submit a data change request in [C&D](#).

Fannie Mae will:



- accept the revised terms, modify the [Commitment](#), and make necessary data changes; or
- reject the revised terms and either enforce the original [Commitment](#) or terminate the [Commitment](#).

204.03B Rate Lock Extensions

Requirements

For...	Extension Requirements
MBS or cash Multifamily Trading Desk trades	<ul style="list-style-type: none"> • If the initial Rate Lock Period was 90 days or less, you must <ul style="list-style-type: none"> - request Multifamily Trading Desk approval, and - agree to pay any Rate Lock Extension Fee per the Pricing Memo. • If an extension would cause the total Rate Lock Period to exceed: <ul style="list-style-type: none"> - 90 days, you must collect the additional required Minimum Good Faith Deposit; or - 180 days, you must obtain Fannie Mae Deal Team approval before seeking the extension and collect the additional required Minimum Good Faith Deposit. • After you agree to pay the Rate Lock Extension Fee, the Rate Lock expiration date will be changed to a date that <ul style="list-style-type: none"> - was mutually agreed to, and - is not more than 30 days after the original Rate Lock expiration date.



For...	Extension Requirements
Lender-Arranged Sales	<p>If you negotiate a Rate Lock expiration date extension with the Third Party MBS Investor:</p> <ul style="list-style-type: none">• You must notify the Fannie Mae Deal Team of the new Rate Lock expiration date and any required interest rate adjustment.• The extension must not<ul style="list-style-type: none">- exceed 30 days after the original Rate Lock expiration date, or- cause the total Rate Lock Period to exceed 180 days.
Forward Commitments	<p>Per Part III, Chapter 20: Forward Commitments, Section 2003.05C: Forward Commitment Extensions.</p>

204.03C Commitment Extensions

Requirements

If you extend the [Rate Lock](#) expiration date, you must also request a [Commitment](#) extension.

Operating Procedures

To extend the [Commitment](#):

1. Submit a data change request in [C&D](#) on or before the [Commitment](#) expiration date.
2. For an [MBS Mortgage Loan](#), obtain any necessary [MBS Investor](#) approval for any [Book-Entry Date](#) change.
3. Fannie Mae will change your [Commitment](#) in [C&D](#) to reflect the new [Commitment](#) expiration date and the revised [Book-Entry Date](#), if necessary.
4. When Fannie Mae approves the extension, you will receive a new [Commitment](#) expiration date.

Section 205 ASAP Options



Requirements

To participate in the [ASAP Options](#), you must

- be approved in writing, and
- execute the applicable [ASAP Contracts](#) provided by the [Capital Markets Early Funding Desk](#).

Guidance

Using the [ASAP Options](#), you may sell [Mortgage Loans](#) to Fannie Mae on an accelerated basis after the [Mortgage Loan Origination Date](#).

ASAP Option	Is available for...
ASAP Sale	MBS Mortgage Loans
ASAP Plus	<ul style="list-style-type: none">• MBS Mortgage Loans• Cash Mortgage Loans



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**”;



- “Photos”;
- ”Rent Roll”;
- “Management Interview”;
- “Multifamily”;
- “Fannie Mae Assessment Addendum”;
- “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...
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Inform Multifamily Inspections and Multifamily Loss Mitigation: <ul style="list-style-type: none"> - 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.



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...						
Type	Fannie Mae Risk Rating	Inspection Frequency	Number of Units to Inspect		Minimum # of Photos	Inspector
			%	Min/Max		
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.						
Type	Fannie Mae Risk Rating	Inspection Frequency	Number of Units to Inspect		Minimum # of Photos	Inspector
			%	Min/Max		
Most Recent Inspection rating of 4 or 5	All Ratings	Annual	10%	10/20	15	In-House Only



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 \geq 1.35, or Co-op DSCR \geq 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.						
Type	Fannie Mae Risk Rating	Inspection Frequency	Number of Units to Inspect		Minimum # of Photos	Inspector
			%	Min/Max		



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



Operating Procedures

You must:

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

Guidance

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

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

502.04B Submissions

Operating Procedures

You must:

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



- Timely resolve all issues Fannie Mae identifies.

➔ Guidance

See the MAMP User Guide for [Property](#) inspection form submission information.

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

502.05 Property Inspectors

502.05A Qualifications

☑ Requirements

You must ensure any inspector:

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

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



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](#):



Surveillance, Section 502.03: Property Inspection Protocol.

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

502.06B Photos

Operating Procedures

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

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

502.06C Interviews

Operating Procedures

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

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



recent **Property** inspection were corrected.

502.06D Market Analysis

Operating Procedures

You must evaluate:

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

502.06E Collateral Analysis

Operating Procedures

If the **Property** needs repairs or maintenance:

Step	Activity	You must...
1	Notify Borrower	<ul style="list-style-type: none">• Within 45 days after the inspection date,<ul style="list-style-type: none">- 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	<ul style="list-style-type: none">• Follow up to ensure the Borrower responded and the work was successfully completed. If not:<ul style="list-style-type: none">- 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.



Step	Activity	You must...
3	Set Rating	<p>Set the Property inspection overall rating to 4 (or 5 depending on the severity or other existing issues) if:</p> <ul style="list-style-type: none">• 10% or more of the units are down for any reason; or• there is casualty damage equal to<ul style="list-style-type: none">- 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:



- 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



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 <ul style="list-style-type: none">• for seasonal variations, and• certain expenses including, but not limited to,<ul style="list-style-type: none">- real estate taxes,- property casualty insurance,- Replacement Reserves, and- property management fees.



Item	Activity	You must...
3	Comment	<p>Comment if:</p> <ul style="list-style-type: none"> • the Mortgage Loan is on Fannie Mae's Watchlist; or • there is a: <ul style="list-style-type: none"> - greater than 20% variance from the same reporting period in the prior year for (per Form 4254.DEF) <ul style="list-style-type: none"> ▪ 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

Fannie Mae Watchlist Status or Product	Reporting
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Fannie Mae Watchlist Property (All Products)	You must submit detailed quarterly operating statements <ul style="list-style-type: none">• 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. <u>If the original Mortgage Loan amount is:</u> <ul style="list-style-type: none">• <u>equal to \$6 million or less, no quarterly financial reporting or waiver required; or</u>• <u>greater than \$6 million, you must submit detailed quarterly operating statements 75 days after the end of the second and third quarters.</u>
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 <ul style="list-style-type: none">• detailed quarterly operating statements,• Structured Facilities Monitoring Narrative (Form 4801), and• Spreadsheet (Form 4802).
All Others	You must submit detailed quarterly operating statements 75 days after the end of the second and third quarters.

Operating Procedures

You must adhere to the following due dates:

Fannie Mae Watchlist Property



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

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



Credit Facility or Bulk Delivery Property			
Reporting Quarter	Reporting Period	Reporting Due Date for Property with 12/31 Fiscal Year End	Reporting Due Date for Property with non-12/31 Fiscal Year End
First	Trailing 3 months operating data: <ul style="list-style-type: none"> • Property level statements covering the 1st quarter; and • Deal level Structured Facilities Monitoring Narrative and Spreadsheet (Form 4801 and Form 4802). 	June 15	75 days after 1st quarter end
Second	Trailing 3 months operating data: <ul style="list-style-type: none"> • Property level statements covering the 2nd quarter; and • Deal level Structured Facilities Monitoring Narrative and Spreadsheet (Form 4801 and Form 4802). 	September 15	75 days after 2nd quarter end
Third	Trailing 3 months operating data: <ul style="list-style-type: none"> • Property level statements covering the 3rd quarter; and • Deal level Structured Facilities Monitoring Narrative and Spreadsheet (Form 4801 and Form 4802). 	December 15	75 days after 3rd quarter end



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	75 days after 4th quarter end
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All Others			
Reporting Quarter	Period Covered	Reporting Due Date for Property with 12/31 Fiscal Year End	Reporting Due Date for Property with non-12/31 Fiscal Year End
Second	2nd quarter year-to-date	September 15	75 days after 2nd quarter end
Third	3rd quarter year-to-date	December 15	75 days after 3rd quarter end

Guidance

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

503.03 Annual Financial Analysis of Operations

503.03A Reporting Period

Requirements

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

- previous calendar year for a **Property** with a 12/31 fiscal year end, or



- fiscal year ending in the previous calendar year for a [Property](#) with a non-12/31 fiscal year end.

503.03B Submission

Operating Procedures

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

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



Annual Reporting Protocol		
For...	Due Date	You must...
Every Property	<ul style="list-style-type: none">• June 1 for a Property with a 12/31 fiscal year end, or• for a Property with a non-12/31 fiscal year end:<ul style="list-style-type: none">- 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

Operating Procedures



Waiver Reason	Action
Unresponsive Borrower	<ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> - 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	<p>Submit a waiver request via the MAMP if:</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> - liquidated in the current quarter (for quarterly reporting waivers), or year (for annual reporting waivers), before the Financial Analysis of Operations submission due date; <ul style="list-style-type: none"> - was delivered per a Forward Commitment and has not yet converted to a permanent loan; - was defeased; - has FHA or HUD risk sharing; - is managed by Fannie Mae’s Special Asset Management; or - was acquired by Fannie Mae in the current reporting year, and less than 6 months of Property operating data is available.

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



Section 504 Loan Agreement Compliance

504.01 Generally

Requirements

For all [Mortgage Loans](#), you must

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

Guidance

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

504.02 Financial Reports and Information

504.02A Borrower and Guarantor Notices

Operating Procedures

You:

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



504.02B Borrower Fails to Provide Guarantor Financial Reports

Operating Procedures

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

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

You must provide:

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

If the Borrower or a Guarantor...	You...
Fails to: <ul style="list-style-type: none"> • timely submit all required information; or • respond to at least 3 written notices. 	Must request a waiver through: <ul style="list-style-type: none"> • 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	<ul style="list-style-type: none">• Submit the certified material through:<ul style="list-style-type: none">- the MAMP for the Borrower; and- Sponsor Financials for Guarantors.• Retain the information in your Servicing File.
Additional or supporting information is required	<ul style="list-style-type: none">• Promptly:<ul style="list-style-type: none">- contact the Borrower or Guarantor to request additional information; and- submit a copy of all financial reporting, explanatory schedules, and other supporting information through<ul style="list-style-type: none">▪ 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 Compliance

Requirements

You must:

- maintain effective [OFAC](#) compliance procedures;
- monthly:
 - screen the [Borrower](#), [Key Principal](#), [Guarantor](#), and [Principals](#) for



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

- 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.



GLOSSARY

■ Local Borrower

For Small Mortgage Loans, a Borrower or at least 1 Key Principal of the Borrower that has a primary residence located within ~~100~~200 miles of the Property.

■ Small Mortgage Loan

Mortgage Loan with an original loan amount less than or equal to \$69 million ~~and underwritten per Part III, Chapter 9: Small Mortgage Loans.~~

Synonyms

Small Mortgage Loans