



Multifamily Selling and Servicing Guide

No portion of this Multifamily Selling and Servicing Guide may be reproduced in any form or by any means without Fannie Mae's prior written permission, except as may be provided herein or unless otherwise permitted by law. Limited permission to reproduce this Multifamily Selling and Servicing Guide in print, in whole or in part, and limited permission to distribute electronically parts of this Multifamily Selling and Servicing Guide, are granted to Fannie Mae-approved Lenders strictly for their own use in originating and selling multifamily Mortgage Loans to, and servicing multifamily Mortgage Loans for, Fannie Mae. Fannie Mae may revoke this limited permission by sending 60 days advance written notice to any or all Fannie Mae-approved Lenders.



TABLE OF CONTENTS

Summary of Changes	7
Part II Chapter 1 Attributes and Characteristics	9
Section 101 Eligible Properties	9
101.01 Generally	9
101.02 Expanded Housing Choice	10
Section 101 Eligible Properties	12
Section 102 Multiple Properties	14
102.01 Single Borrower Ownership	14
102.02 Joint and Several Borrower Ownership	15
Section 103 Property Ownership; Leasehold	16
Section 104 Ground Leased Properties	16
104.01 Generally	16
104.02 Ground Lease Rents	16
104.03 Ground Lease Estoppel Certificate	17
104.04 Ground Lease Review	17
Section 105 Minimum Occupancy	17
105.01 Residential Occupancy	17
105.02 Qualified Occupants	17
Section 106 Certificates of Occupancy	18
Section 107 Phased Properties	20
Section 108 Shared Use Properties	22
108.01 Eligibility	22
108.02 Documents	24
108.02 A Loan Documents	24
108.02 B Shared Use Documents	24
Section 109 Commercial Leases	27
109.01 Material Commercial Leases	27
109.01 A Lease Review	27
109.01 B Lease Approval	28
109.01 C Lease Modifications	29
109.01 D Tenant Estoppel Certificate	29
109.01 E Subordination, Non-Disturbance and Attornment	29
109.02 Non-Material Commercial Leases	30
109.02 A Tenant Estoppel Certificate; Lease Modification	30
109.02 B Non-Material Commercial Lease Types	30
109.03 Short Term Rentals	33
Section 110 Renewable Energy Generation Systems	34
110.01 Acceptable Renewable Energy Generation Systems	34
110.02 Solar Photovoltaic Systems	35
110.03 Solar PV System Module	36
110.04 Underwritten NCF	36
Section 111 Oil/Gas Wells and Mineral Exploration	37
111.01 Active Oil and Gas Wells	37



111.02 Inactive Oil and Gas Wells	38
Section 112 Property Management and Agreement	39
112.01 Property Management	39
112.02 Property Management Agreement	39
Part III Chapter 23 Expanded Housing Choice	41
Part V Chapter 4 Asset Management: Loan Document Administration	43
Section 401 Servicing Requirements	43
401.01 General	43
401.02 Monitoring Compliance with Loan Documents	44
Section 402 Delegation of Decision-Making Authority; Retention of Outside Legal Counsel	44
402.01 Delegation of Decision-Making Authority	44
402.02 Retention of Outside Legal Counsel	45
Section 403 Execution of Documents by Servicer – Limited Power of Attorney	45
Section 404 Execution of Documents by Fannie Mae	46
404.01 Submission of Documents to Fannie Mae	46
404.02 Servicer Certification When Fannie Mae Approval Is Not Required	46
404.03 Servicer Certification When Fannie Mae Approval Is Required	47
Section 405 Fees Due to Fannie Mae	47
Section 406 Follow-Up Actions by the Servicer	48
Section 407 Subordinate Financing	48
407.01 Non-Fannie Mae Subordinate Financing	48
407.02 Prerequisite for Subordinate Financing	49
407.03 Fees for Subordinate Financing	50
407.04 Submitting the Request for Subordinate Financing	50
407.05 Fannie Mae Approval and Execution	51
407.06 Subsequent Servicer Actions	51
Section 408 Administration of Collateral Agreements	52
408.01 General Administrative Requirements	52
408.01 A Administration of Funds	52
408.01 B Funds to be Held in a Custodial Account	52
408.01 C Use of Funds	52
408.01 D Funds as Additional Security for Mortgage Loan	52
408.01 E Servicer’s Fees and Costs	53
408.01 F Waiver or Modification of Terms of Collateral Agreement	53
408.02 Achievement Agreement or Other Agreement for Additional Collateral	53
408.02 A General	53
408.02 B Releases or Reductions in Collateral	54
408.02 C Draws on Letters of Credit or Application of Other Collateral	56
408.02 D Releasing Additional Escrows for Principal and Interest, Taxes and Insurance, and Replacement Reserves	58
408.03 Completion/Repairs	58
408.03 A General	58



408.03 B Extensions for Completion/Repairs	59
408.03 C Completion/Repair Loan Document Amendments	60
408.03 D Servicer's Administrative Requirements	61
408.03 E Processing Borrower Requisitions	62
408.03 F Inspections	65
408.03 G Fees	66
408.03 H Completion/Repair Defaults	67
408.03 I Green Rewards Efficiency Measure Verification	67
408.04 Replacement Reserve	70
408.04 A General	70
408.04 B Replacement Reserve Loan Document Amendments	71
408.04 C Servicer's Administrative Requirements	71
408.04 D Modifications to Replacement Reserve Deposits	72
408.04 E New Property Condition Assessments	72
408.04 F When Replacement Reserve Funding Was Partially or Fully Waived	74
408.04 G Interest on Replacement Reserve Funds	74
408.04 H Items Eligible for Funding from the Replacement Reserve	74
408.04 I Items Not Eligible for Funding from the Replacement Reserve	75
408.04 J Processing Borrower Requisitions	75
408.04 K Inspections	77
408.04 L Fees	77
408.04 M Replacement Reserve Defaults	78
408.04 N Return of Replacement Reserve Funds to Borrower	78
408.04 O Alternative Funding of Replacement Reserves for Portfolio Mortgage Loans	78
Section 409 Interest Rate Hedge Requirements	78
409.01 General	79
409.02 Interest Rate Hedge Coverage	79
409.02 A Bond Credit Enhancement Transactions	79
409.02 B Structured Transactions	79
409.02 C All Hedges	80
409.03 Interest Rate Hedge Term	80
409.04 Lien Filings and Collateral	80
409.05 Borrower Payments	80
409.05 A Interest Rate Caps	81
409.05 B Interest Rate Swaps	81
409.06 Provider Ratings	82
409.07 Replacement Interest Rate Hedge and Notification	82
409.08 Replacement Interest Rate Hedge Documents and Follow Up	82
Section 410 Ground Leases	83
Section 411 Notice of Lien or Noncompliance with Applicable Laws, Ordinances and Regulations	83
Section 412 Property Forfeitures and Seizures	84
Section 413 Property and Liability Insurance	85
413.01 Property and Liability Insurance	85



413.02 No Financing for Property and Liability Insurance Premiums	85
413.03 Flood Map Changes; Obtaining Flood Insurance	85
413.04 Lender Placed Insurance	86
413.04 A Property and Liability Insurance	86
413.04 B Flood Insurance	86
413.04 C Servicer’s Administrative Costs and Expenses	86
Section 414 Casualty Losses – Performing Mortgage Loans	86
414.01 Notice	86
414.02 Filing Proof of Loss	86
414.03 Casualty Loss Assessment	87
414.04 Required Casualty Loss Property Inspection	88
414.05 Documentation for Required Casualty Loss Property Inspections	89
414.06 Endorsement of Insurance Loss Draft or Check When Payable to Fannie Mae	89
414.07 Endorsement of Insurance Loss Draft or Check When Not Payable to Fannie Mae	89
414.08 Insurance Loss Draft or Check Not Payable to Either Fannie Mae or Servicer	90
414.09 Application of Insurance Loss Proceeds	90
414.09 A Fannie Mae Determination Required	90
414.09 B Disposition of Insurance Loss Proceeds	91
414.10 Property Restoration Requirements	91
414.11 Commencement of Repair/Restoration Work	93
414.12 Disbursements	93
414.12 A Prerequisites for Disbursement of Funds	93
414.12 B Disbursing Funds	94
414.12 C Content of Disbursement Request	94
414.12 D Disbursement Amount	95
414.12 E Final Disbursement; Notice to Fannie Mae	96
414.12 F Documentation in Servicing File	96
414.13 Borrower’s Failure to Diligently Pursue Repair	96
414.14 Reimbursement of Administrative Costs	97
Section 415 Casualty Losses – Non-Performing Mortgage Loans	97
Section 416 Credit Facilities and Bulk Deliveries	97
416.01 General	97
416.02 Delegation of Decisions	98
416.02 A Decisions and Actions Not Delegated	98
416.02 B Decisions Delegated by the Delegated Transaction Form 4636 series	98
416.02 C Other Delegated Decisions	99
416.03 Approval Requests	99
416.04 Release and Substitution Requests	99
416.05 Borrow-Up (Future Advance) Requests	101
416.06 Facility Revaluations	102
416.07 Supplemental Mortgage Loans Not Permitted	102
416.08 Additional Information	102



Section 417 Seniors Housing Properties	102
417.01 General	102
417.02 Decisions and Actions Delegated and Not Delegated	102
417.03 Approval Requests	103
417.04 Seniors Housing Expansion/Conversion Requests	103
417.04 A Permitted Purpose	104
417.04 B Submission Requirements	104
417.04 C Requirements and Monitoring	104
417.04 D Construction Completion Requirements	105
417.04 E Request Changes in Unit Count/Mix in the MAMP	106
Section 418 Asset Management for Credit Enhancement Mortgage	
Loans and Multifamily Affordable Housing Properties	106
418.01 Bond Transactions and Credit Enhancement Mortgage Loans	107
418.02 Compliance Issues Relative to Bond Credit Enhancement	
Transactions	107
418.03 Monitoring Compliance; Notification of Noncompliance	107
418.03 A Affordable Regulatory Agreement	107
418.03 B Default Notice for Failure to Comply with the Bond	
Documents	108
418.04 Multifamily Affordable Housing (MAH) Properties	108
418.05 Low-Income Housing Tax Credits	108
418.06 Enhanced Resident Services	109
418.07 Expanded Housing Choice	109
418.08 HAP Contract Approval and Releasing Restabilization Reserve	115
Section 419 Sponsor-Dedicated Workforce Housing Properties	115
Section 420 MH Communities with Tenant Site Lease Protections	116
Section 421 Single Asset Entity Conversion	118
Section 422 Loan Document Amendments	118
Section 423 Maturing Mortgage Loans	119
423.01 Written Policy	119
423.02 Refinance Eligibility	119
423.03 Borrower Communications	120
423.04 Fannie Mae Communications	121
GLOSSARY	122



Summary of Changes

HIGHLIGHTS

Effective for all Mortgage Loans Committed as of October 15, 2024, requirements for Expanded Housing Choice (EHC) were updated to:

- expand EHC availability to all markets without Source of Income Protections for Housing Choice Voucher renters;
- clarify EHC eligibility; and
- streamline asset management requirements.

Primary Changes

- Moved the EHC requirements from Part II, Chapter 1: Attributes and Characteristics into a newly created Part III, Chapter 23: Expanded Housing Choice.
- Clarified EHC eligibility.
- Expanded EHC beyond Texas and North Carolina to all markets without Source of Income Protection legislation effective
 - currently, or
 - within 2 years after the Mortgage Loan Origination Date.
- Required properties have at least 40% of units within the applicable HUD
 - Fair Market Rent, or
 - Small Area Fair Market Rent.
- Updated Part V, Chapter 4: Asset Management: Loan Document Administration, Section 418.07: Expanded Housing Choice to:
 - remove references to the Payment Guaranty (Pricing Incentive Recapture) (Form 6020.PIR);
 - require you to collect an annual rent roll using new Streamlined Rent Roll (Form 4241); and
 - allow you to request the Annual Loan Agreement Certification (Expanded Housing Choice) (Form 6620.Supplemental.Expanded Housing Choice) as needed.



Questions

Please contact Susan Filanowicz at (202) 752-1039, or susan_filanowicz@fanniemae.com, with any questions.



Chapter 1 Attributes and Characteristics

Section 101 Eligible Properties

101.01 Generally

Requirements

For a **Mortgage Loan** to be eligible for purchase, it must be secured by a multifamily residential property that meets all of the following:

- contains at least 5 dwelling units;
- does not include a stand-alone building containing less than 5 dwelling units (e.g., a single-family structure), unless it:
 - was originally constructed as part of a single multifamily development; or
 - is situated on the same tax parcel, or shares a tax parcel boundary, with a
 - multifamily property, or
 - **MH Community**;
- has suitable bathroom and cooking facilities within each unit;
- is located in 1 of the 50 states of the United States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, or Guam;
- is located on a publicly dedicated, all-weather road, or is accessible by a satisfactory easement from this type of road;
- consists of either a single parcel or multiple parcels per **Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership**;
- any commercial space is:
 - physically part of, and connected to, the multifamily space; or
 - a stand-alone building that is on the same tax parcel;
- has adequate water and sewer service, which may be delivered by a public utility or, where commercially acceptable for the market area, by a private system or utility;
- offers a suitable level of utility service (e.g., electrical, natural gas, refuse removal, etc.) for the market area;



- either complies with all applicable statutes, rules, regulations, and housing and building codes, or is being appropriately remediated;
- does not contain any Modular Housing; and
- has access to police and emergency services.

➔ Guidance

To determine if a single-family structure was originally constructed as part of a single-multifamily development, you should consider if all buildings:

- were originally constructed at the same time;
- were historically bought, operated, and sold as 1-Project since originally constructed;
- are generally consistent in physical appearance, with distinct boundaries such as
 - signage,
 - gates/fencing,
 - shared parking, or
 - dedicated streets;
- are located on a single tax parcel or adjacent tax parcels;
- are configured without any non-Borrower-owned parcels or buildings separating/splitting or within the multifamily development; and
- are not part of a predominately homeowner development.

101.02 Expanded Housing Choice

➔ Guidance

A Mortgage Loan is eligible for a pricing incentive if the Borrower and Property comply with this Section.

☑ Requirements

For Expanded Housing Choice pricing incentive eligibility, all of the following must be met:



- The Borrower agrees to:
 - accept Housing Choice Vouchers throughout the Mortgage Loan term;
 - not discriminate against applicants, tenants, their family members, and occupants for using Housing Choice Vouchers to pay rent and other lawful fees, including
 - applying stricter screening standards;
 - charging larger security deposits, rent, or fees; or
 - subjecting them to additional community rules;
 - advertise the Property and/or available units
 - with participating Public Housing Agencies, and
 - on <https://www.affordablehousing.com> (or successor site); and
 - execute a
 - Modification to Multifamily Loan and Security Agreement (Expanded Housing Choice) (Form 6273), and
 - Payment Guaranty (Pricing Incentive Recapture) (Form 6020-PIR).
- The Property:
 - is located in
 - Texas; or
 - North Carolina;
 - is not already required to accept Housing Choice Vouchers as a financing condition, such as per
 - an Affordable Regulatory Agreement;
 - Sponsor-Initiated Affordability Agreement; or
 - LIHTC agreement; and
 - on the Mortgage Loan Origination Date, has at least 20% of its units within the applicable HUD Fair Market Rent or Small Area Fair Market Rent, as adjusted per the applicable Public Housing Agency payment standard, with the qualifying unit mix being in proportion to the Property's overall unit mix.



Operating Procedures

Use the [Housing Choice Vouchers: Expanded Housing Choice \(EHG\) Job Aid](#) to commit and [Deliver a Mortgage Loan](#) qualifying for an [Expanded Housing Choice pricing incentive](#).

Guidance

For an acceptable unit mix within the applicable [HUD Fair Market Rent](#) or [Small Area Fair Market Rent](#), the qualifying units must be proportional to the [Property's](#) overall unit mix. An acceptable unit mix at a sample 100-unit building would be:

Sample 100-Unit Building		
Apartment Type	Number of Units	Minimum 20% Unit Mix
Studio	10	2
1 Bedroom	50	10
2 Bedroom	30	6
3 Bedroom	10	2
Total	100	20

101.01 Section 101

Generally Eligible Properties

Requirements

For a [Mortgage Loan](#) to be eligible for purchase, it must be secured by a multifamily residential property that meets all of the following:

- contains at least 5 dwelling units;
- does not include a stand-alone building containing less than 5 dwelling units (e.g., a single-family structure), unless it:
 - was originally constructed as part of a single multifamily development; or
 - is situated on the same tax parcel, or shares a tax parcel boundary, with a
 - multifamily property, or



— MH Community;

- has suitable bathroom and cooking facilities within each unit;
- is located in 1 of the 50 states of the United States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, or Guam;
- is located on a publicly dedicated, all-weather road, or is accessible by a satisfactory easement from this type of road;
- consists of either a single parcel or multiple parcels per [Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership](#);
- any commercial space is:
 - physically part of, and connected to, the multifamily space; or
 - a stand-alone building that is on the same tax parcel;
- has adequate water and sewer service, which may be delivered by a public utility or, where commercially acceptable for the market area, by a private system or utility;
- offers a suitable level of utility service (e.g., electrical, natural gas, refuse removal, etc.) for the market area;
- either complies with all applicable statutes, rules, regulations, and housing and building codes, or is being appropriately remediated;
- does not contain any [Modular Housing](#); and
- has access to police and emergency services.

➔ Guidance

To determine if a single-family structure was originally constructed as part of a single multifamily development, you should consider if all buildings:

- were originally constructed at the same time;
- were historically bought, operated, and sold as 1 [Project](#) since originally constructed;
- are generally consistent in physical appearance, with distinct boundaries such as
 - signage,
 - gates/fencing,



- shared parking, or
- dedicated streets;
- are located on a single tax parcel or adjacent tax parcels;
- are configured without any non-Borrower owned parcels or buildings separating/splitting or within the multifamily development; and
- are not part of a predominately homeowner development.

Section 102 Multiple Properties

102.01 Single Borrower Ownership

Requirements

If more than 1 **Property** secures a **Mortgage Loan**, you must determine if all multifamily buildings are part of the same **Project**. Buildings on multiple **Properties** are a single **Project** if all **Properties**:

- are only separated by publicly dedicated or private streets primarily intended for local residents or access to the **Property**, and not by major arteries or thoroughfares (i.e., streets primarily intended for traffic traveling through the area); and
- have the following characteristics:
 - all buildings have been operated as a single complex (e.g., no buildings are marketed separately to tenants);
 - the **Properties** are within
 - 0.5 miles or less of each other, and
 - the same submarket;
 - amenities at any building are available to tenants in other buildings;
 - amenities located in one building do not materially, adversely affect the rents at other buildings without similar amenities; and
 - the overall building configuration across the **Properties** does not result in elevated vacancy levels at any building.

If multiple **Properties** are not part of the same **Project**, you must:

- collect detailed individual data for each **Property**, including separate



- rent rolls, and
- operating statements;
- enter each Property in the “Properties” section of DUS Gateway;
- complete a Multifamily Affordability Estimator (MAE) for each Property per Part I, Chapter 2: Mortgage Loan, Section 201: Registration and Multifamily Affordability Estimator;
- require every third-party report to assess
 - the Properties in each Project separately, and
 - all Properties in the aggregate; and
- enter each Property as a separate Property Collateral record in C&D.

When a Mortgage Loan not in a Credit Facility is secured by multiple Properties (whether in the same or multiple Projects), each multifamily Property must individually:

- comply with the minimum occupancy requirements in
 - Part II, Chapter 1: Attributes and Characteristics, Section 105: Minimum Occupancy, or
 - Part III, Chapter 9: Small Mortgage Loans, Section 903: Occupancy;
- be located in the same MSA; and
- have an acceptable Property condition based on
 - your site inspection, and
 - any required PCA.

Guidance

For a Mortgage Loan secured by multiple Properties not part of the same Project, you may:

- accept a consolidated third-party report for multiple Projects, if each Property is identified and assessed separately; and
- consolidate the Underwritten NCF and overall underwriting in a single Transaction Approval Memo.



102.02 Joint and Several Borrower Ownership

Requirements

If...	Then...
<p>A Mortgage Loan</p> <ul style="list-style-type: none">• is made to joint and several Borrowers,• is secured by multiple Properties, and• has a Property owned by a different Borrower.	<p>The Mortgage Loan and each Borrower must comply with</p> <ul style="list-style-type: none">• Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302.01: Single-Asset Entity,• Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302.03: Joint and Several Borrowers with Multiple Properties, and• Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership.

Section 103 Property Ownership; Leasehold

Requirements

You must ensure that the Property is owned in fee simple, unless the Property is held under an acceptable Leasehold estate.

Section 104 Ground Leased Properties

104.01 Generally

Requirements

If the Property has a Ground Lease, the Mortgage Loan collateral must include a Lien on the Leasehold estate.

You must ensure that the Ground Lease complies with the Ground Lease Review Checklist (Form 6479), unless

- the ground lessor joins with the Borrower in executing the Security Instrument and grants a Lien on the ground lessor's fee estate, or
- the absence of the Leasehold estate would not have a material adverse effect on the Property's operation or value.



104.02 Ground Lease Rents

Requirements

You must:

- establish an escrow for ground rents;
- ensure the [Borrower](#) deposits sufficient funds; and
- make all payments due per the [Ground Lease](#).

104.03 Ground Lease Estoppel Certificate

Requirements

You must obtain an executed Ground Lessor Estoppel Certificate ([Form 6495](#)).

104.04 Ground Lease Review

Requirements

You must:

- review and analyze the [Ground Lease](#) to ensure compliance with the requirements of this Section; and
- retain the completed [Form 6479](#) in your [Servicing File](#).

Section 105 Minimum Occupancy

105.01 Residential Occupancy

Requirements

You must ensure the [Property](#) meets these minimum occupancy levels:

- 85% physical occupancy; and
- 70% economic occupancy.

These minimum levels apply on the [Commitment Date](#) and for the preceding 3-month period.

105.02 Qualified Occupants



Requirements

When calculating physical occupancy, you must only include tenants who

- physically occupy the unit, and
- have commenced paying rent.

Guidance

You may include any tenant who:

- was under a standard lease for at least 6 months, then converted to a month-to-month lease when the lease expired; or
- is under a lease with a term of less than 6 months, if shorter-term leases
 - are commonly accepted in the market area, and
 - do not reflect weakness in the market.

You may include non-revenue producing units such as

- management units,
- employee occupied units,
- maintenance units, and
- model units.

Such units should not exceed what is usual and customary for stabilized properties in the market.

Section 106

Certificates of Occupancy

Requirements

Certificates of Occupancy	
For any...	You must...



Certificates of Occupancy	
Property with construction or rehabilitation work completed within the last 12 months	<ul style="list-style-type: none">• Ensure all units have a certificate of occupancy.• Obtain copies of all certificates of occupancy from the Borrower.• Retain them in your Servicing File.
Other Property	<ul style="list-style-type: none">• Determine if each unit had a certificate of occupancy at some point.• Attempt to obtain copies of them.• Retain them in your Servicing File.

➔ Guidance

No Certificate of Occupancy	
If you cannot obtain...	You should...
Copies of certificates of occupancy for a Property (for example, because of the Property's age, or the records of the jurisdiction where the Property is located)	<ul style="list-style-type: none">• Exclude the income generated by any units without a certificate of occupancy, but include all expenses (including replacement reserves) for the maintenance of these units.• Look for other evidence that certificates of occupancy had been issued.



No Certificate of Occupancy	
Copies or other sufficient evidence of a certificate of occupancy	Analyze the risk to the Property if one had never been issued, by considering if: <ul style="list-style-type: none">• your physical inspection reveals any life safety issues;• all units are accessible through normal access routes (and not, for example, through a former janitorial closet);• the insurance excludes coverage of a casualty originating from a unit without a certificate of occupancy; and• the Property is located in a market that exhibits low vacancies and barriers to entry.

Section 107

Phased Properties

Requirements

If the **Property** is a **Phased Property**, you must evaluate

- how the **Property** will be affected by other phases, and
- if the **Property** can succeed independently from other phases.

Guidance

In determining if a **Phased Property** is viable as a separate **Property**, you should consider if:

- its ownership and operation are separate from all other phases of the complex;
- the **Borrower** is able to provide a separate leasing office;
- your underwriting has discounted any benefits derived from staff or facilities shared with other phases;
- the records and accounts used to underwrite the **Property** are separate from those of other phases;
- any cross-easements for the complex will survive an adverse action



against another phase;

- any development of a future phase could materially interfere with or disturb the [Property's](#)
 - occupancy,
 - marketability,
 - or living environment; and
- the [Property](#) is:
 - marketable to tenants or a new owner, separately from other phases;
 - visible to the public without passing through another phase of the complex; and
 - accessible from a public roadway.

In assessing the impact of future phases on a [Property](#), you should consider:

- the short-term impact of construction activity; and
- long-term implications for the continued economic viability of the [Property](#), taking into account the allocation of costs for shared facilities (such as roadways).

Requirements

You may only [Deliver a Mortgage Loan](#) on a [Phased Property](#) if Fannie Mae holds all other [Mortgage Loans](#) secured by other phases of the complex.

When the [Phased Property](#) is owned or [Controlled](#) by the same [Borrower](#) or [Principals](#) as the other phases in the complex:

- all Fannie Mae [Mortgage Loans](#) on each phase must be cross-defaulted and cross-collateralized;
- when any new [Phased Property Mortgage Loan](#) is underwritten, the actual amortizing [DSCR](#) (per [Form 4254.DEF](#)) and current [LTV](#) for all existing [Mortgage Loans](#) on each phase must comply with [Form 4660](#) for the same loan term, product, and [Pricing and Underwriting Tier](#), where each property value is determined by
 - dividing the current [NCF](#) by the capitalization rate (i.e., a [Direct](#)



Cap with Sales Comparables analysis),

- broker's opinion of value, or
- most recent [Appraisal](#); and
- the new [Phased Property Mortgage Loan](#) must have a [Prepayment Premium Period End Date](#) on or before the [Prepayment Premium Period End Date](#) of the [Mortgage Loans](#) on the other phases.

➔ **Guidance**

If a future phase is expected, consider issuing the first phase [MBS](#) with a potential future cross.

Section 108 Shared Use Properties

108.01 Eligibility

Requirements

This section does not apply to

- [Condominium Properties](#), and
- [Cooperative Properties](#).

Shared Use Property Delivery Eligibility for Essential Elements Not Located on the Property	
Topic	A Shared Use Property Mortgage Loan is eligible for Delivery if...
Documents	you determine the Shared Use Documents do not explicitly prohibit the Essential Elements from being rebuilt or repaired after any casualty or condemnation.



Shared Use Property Delivery Eligibility for Essential Elements Not Located on the Property	
Property	<p>the Property benefits from Essential Elements per Shared Use Documents that:</p> <ul style="list-style-type: none">• are perpetual;• inure to the benefit of future Property owners;• are recorded in the land records; and• if applicable, are insured as beneficial easements under the lender's title policy.
Split Ownership of Units and Essential Elements	<p>when the Borrower owns all units subject to the Shared Use Documents, and an Affiliate of the Borrower or Key Principal directly or indirectly owns the Essential Elements that benefit only the Property, such Affiliate joins the:</p> <ul style="list-style-type: none">• Loan Documents as a joint and several Borrower; or• Security Instrument using the Modification to Security Instrument (Joinder and Consent (Affiliate Owned Common Elements)) (Form 6324).

Shared Use Property Delivery Eligibility for All Essential Elements	
Topic	A Shared Use Property Mortgage Loan is eligible for Delivery if...



Shared Use Property Delivery Eligibility for All Essential Elements	
Financial	<p>all:</p> <ul style="list-style-type: none">• Property and Essential Elements expenses and charges payable per the Shared Use Documents are current;• assessments and payments payable per the Shared Use Documents are current; and• to the extent permitted by law, future assessments owed by the Borrower and associated liens, if any, are subordinate to the Mortgage Loan.
Borrower Status	<p>the Borrower:</p> <ul style="list-style-type: none">• has no outstanding community violations; and• is not involved in a community dispute that may<ul style="list-style-type: none">- result in litigation, or- materially adversely impact the Property.

108.02 Documents

108.02A Loan Documents

Requirements

You must:

- ensure the Borrower executes the Modification to Multifamily Loan and Security Agreement Shared Use of Essential Elements (Form 6276); and
- if appropriate per the conditions described in the Estoppel Certificate attached to Form 6276, use reasonable efforts to obtain from the association or other appropriate party:
 - the Estoppel Certificate attached to Form 6276; or
 - other form providing similar representations.

108.02B Shared Use Documents



☑ Requirements

You must:

- evaluate the Shared Use Documents;
- document your evaluation in the Transaction Approval Memo; and
- obtain:
 - an ALTA title policy per Part II, Chapter 3: Legal Compliance, Section 304: Title Insurance; and
 - ALTA Endorsements (i.e., 5-06, 28-06, and 9-06) if available in the Property's jurisdiction.

➔ Guidance

Shared Use Document Evaluation	
Topic	You should review the Shared Use Documents to evaluate...
Ownership and Control	<ul style="list-style-type: none">• if the Borrower owns all Improvements and the underlying land;• if Essential Elements not located on the Property exist, and if ownership is:<ul style="list-style-type: none">- directly or indirectly by an Affiliate of the Borrower or Key Principal;- by a separate association or governing body;- by another community owner or an adjacent property owner; or- shared by the community owners; and• how association and Essential Elements decisions are made by any<ul style="list-style-type: none">- developer,- declarant,- association,- community owner, or- other governing body.



Shared Use Document Evaluation	
Responsibilities and Enforcement	<p>how an association or governing body:</p> <ul style="list-style-type: none">• collects fees and assessments;• maintains Essential Elements;• obtains insurance;• mediates disputes; and• enforces covenants, including<ul style="list-style-type: none">- levying fines or interest, or- pursuing liens or foreclosure.
Fees	<p>the assessment fee structure, including</p> <ul style="list-style-type: none">• escalation provisions,• special assessments, and• if assessments should be escrowed.
Budget	<p>the association's current</p> <ul style="list-style-type: none">• annual budget,• income/expense statements, and• reserve accounts.
Mandates	<p>how the association dictates:</p> <ul style="list-style-type: none">• operations;• physical appearance;• insurance claim proceeds;• other restrictions, including limitations or modifications for using the Essential Elements; <p>and</p> <ul style="list-style-type: none">• if the cost and maintenance of the Essential Elements located on the Property are not overly burdensome.
Insurance	<p>the association's coverage for:</p> <ul style="list-style-type: none">• property, including if the Essential Elements not located on the Property must be rebuilt or repaired after any casualty or condemnation;• liability; and• director's and officer's.



Section 109

Commercial Leases

Requirements

You must only underwrite actual income from occupied commercial space with an executed lease or lease extension agreement, if:

- the remaining lease term is at least 12 months after the [Mortgage Loan Origination Date](#);
- the tenant is
 - paying rent, and
 - not delinquent on rent due outside the lease's cure period; and
- the underwritten commercial income includes the actual commercial rent due under the lease within 12 months after the [Mortgage Loan Origination Date](#), including any
 - discounts, or
 - concessions.

Guidance

Your evaluation of any commercial space's viability should include:

- [Appraisal](#) sub-market comparable commercial space rents supporting the underwritten rents;
- sub-market data confirming a low commercial space vacancy rate;
- existing sustainable demand for the tenant's business type; and
- evidence that the [Property's](#) location has sufficient foot traffic to support the tenant's business.

109.01 Material Commercial Leases

109.01A Lease Review

Requirements

You must analyze all aspects of each [Material Commercial Lease](#) and its

- tenants,



- grantees, or
- other beneficiaries.

If [Material Commercial Lease](#) approval is required per [Part II, Chapter 1: Attributes and Characteristics, Section 109.01B: Lease Approval](#) you must:

- prepare a written summary of the material terms of the [Material Commercial Lease](#); and
- keep a copy of your summary in your [Servicing File](#).

Guidance

As you analyze the [Material Commercial Lease](#), you should consider if:

- each tenant has the ability to fulfill its financial and other performance obligations under the [Material Commercial Lease](#);
- the [Material Commercial Lease](#) insurance provisions are consistent with the insurance requirements in the applicable [Loan Documents](#) or otherwise prescribed by Fannie Mae;
- each tenant is required to obtain the [Lender's](#) consent before the [Material Commercial Lease](#) is
 - assigned,
 - subleased,
 - subcontracted, or
 - otherwise transferred; and
- the tenant
 - has early termination clauses, and
 - understands the conditions under which they can terminate, including
 - a material casualty or condemnation, or
 - if the landlord cannot substantially restore the premises in a reasonable period of time following a casualty or condemnation.

109.01B Lease Approval



Requirements

Material Commercial Lease Type	
Lease with Property Assessed Clean Energy (PACE) Financing	You must not approve any Material Commercial Lease that includes PACE financing.
Renewable Energy Generation Lease	You must only approve leases for renewable energy systems that comply with Part II, Chapter 1: Attributes and Characteristics, Section 110: Renewable Energy Generation Systems .
Other Material Commercial Leases	You must only approve other Material Commercial Leases that comply with Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases .

109.01C Lease Modifications

Requirements

As you review each [Material Commercial Lease](#) modification, you must consider if it:

- violates any of the requirements of this Section;
- contains terms that are inconsistent with the [Mortgage Loan](#); or
- presents risks that are inappropriate for the [Mortgage Loan](#).

If any of these conditions are present you must:

- require the [Borrower](#) to modify the [Material Commercial Lease](#) appropriately; or
- address the items in the [Tenant Estoppel Certificate \(Form 6413\)](#) and/or the [Subordination, Non-Disturbance, and Attornment Agreement \(Form 6415\)](#).

109.01D Tenant Estoppel Certificate

Requirements

You must obtain a [Tenant Estoppel Certificate \(Form 6413\)](#) for each [Material Commercial Lease](#).



109.01E Subordination, Non-Disturbance and Attornment

Requirements

You must use [Form 6415](#) if:

- the [Material Commercial Lease](#) contains provisions for the [Borrower](#) to assume liability or other risks as landlord that would be unacceptable to the [Lender](#) in case of a [Foreclosure Event](#); or
- the form
 - is necessary for subordination and attornment, or
 - would otherwise be beneficial.

You must ensure that each [Material Commercial Lease](#) (including any renewal or extension):

- is subordinate to the [Lien](#) of the [Security Instrument](#); and
- requires the tenant to attorn to the [Lender](#) under the [Mortgage Loan](#).

109.02 Non-Material Commercial Leases

109.02A Tenant Estoppel Certificate; Lease Modification

Requirements

You must make reasonable efforts to get a [Form 6413](#) for each non-[Material Commercial Lease](#), other than leases relating only to equipment or maintenance services.

If a non-[Material Commercial Lease](#) has terms that are inconsistent with the terms of the [Mortgage Loan](#) or present inappropriate risks for the [Mortgage Loan](#), then you must:

- require the [Borrower](#) to modify the lease appropriately; or
- address any inconsistencies or risks in a [Form 6413](#).

109.02B Non-Material Commercial Lease Types

Requirements



Non-Material Commercial Lease Type	
Telecommunications and Cell Tower Leases	<p>You must review any telecommunications and cell tower lease to ensure it does not:</p> <ul style="list-style-type: none">• comprise more than 5% of the Property's Effective Gross Income;• negatively impact the Property's<ul style="list-style-type: none">- value,- visibility,- livability, or- marketability;• impose an undue financial or operating burden on the Property or the Borrower;• obligate the Borrower to rebuild any Improvements at the Property post-casualty or condemnation;• have a lease term (including extension options) in excess of 25 years;• contain a purchase option; or• convey any right to the tenant other than simple lessee rights (e.g., a perpetual easement, a purported sale of a portion of the Improvements, unjustified exclusivity, etc.).
Communications Service Agreement	<p>You do not need to subordinate the service agreement to the Lien of the Security Instrument if:</p> <ul style="list-style-type: none">• the Borrower certifies to you that neither the Borrower, nor any Key Principal or Principal, is an Affiliate of the communications service provider; and• the lease does not contain provisions for the Borrower to assume liabilities and risks as landlord that would not be acceptable for you (as lender under the Mortgage Loan) in the context of a Foreclosure Event. <p>If a communications service agreement is accompanied by a lease or easement, then the lease or easement must end automatically when the service agreement expires, unless the service agreement is subordinated to the Lien of the Security Instrument.</p>



Non-Material Commercial Lease Type

Mineral Rights; Oil and Natural Gas Leases

You must review each agreement or lease of mineral rights or rights relating to subsurface oil and natural gas to ensure that it does not:

- comprise more than 5% of the [Property's Effective Gross Income](#);
 - grant surface entry for any purpose (e.g., pipes, access across, or storage on the [Property](#));
 - grant subsurface rights within
 - 250 feet below the surface of the [Property](#), or
 - 600 feet from any [Property](#) boundary line;
 - have a material adverse effect on
 - public health and safety,
 - air quality or noise levels, or
 - the [Property's](#) marketability or occupancy;
 - permit oil or gas well activities with potential negative effects on the [Property's](#)
 - access,
 - visibility, or
 - storm water drainage;
 - have a negative effect on the [Property's](#)
 - zoning, or
 - allowable density;
 - facilitate drilling, storage, or processing of oil or gas on the [Property](#) or any adjacent property; or
 - fail to require the lessee to indemnify and hold harmless the [Borrower](#), as lessor, for any damage to the [Property](#) or any other damage or liability caused directly or indirectly as a result of the oil and gas exploration or drilling activities.
- The [Borrower](#) must execute [Form 6262](#) if a lease or deed reservation of rights allows for the subsurface exploration of oil, natural gas, or minerals, but no evidence of active or planned exploration or drilling exists on the [Property](#).



Non-Material Commercial Lease Type	
Laundry Lease	You do not need to subordinate the lease to the Lien of the Security Instrument if you confirm that the lease: <ul style="list-style-type: none">• is not with an Affiliate of the Borrower or any Key Principal or Principal;• has market terms;• contains an acceptable termination for cause provision; and• meets recognized industry standards.
Equipment or Related Maintenance Services Lease	You must ensure that the lease: <ul style="list-style-type: none">• is subordinate to the Security Instrument;• contains an acceptable termination for cause provision; and• meets recognized industry standards.

Guidance

Non-Material Commercial Lease Type	
Storage Unit Lease	You do not need to subordinate the lease to the Lien of the Security Instrument if you determine the unit is being leased pursuant to a residential Lease .

109.03 Short Term Rentals

Requirements

You must ensure that:

- the residential nature of any [Property](#) with units available for [STR](#) is maintained, even though any [Lease](#) of an [STR](#) unit will be
 - classified as a commercial lease, and
 - subject to the space and income limitations per [Form 4660](#);
- no more than 5% of the [Property's](#) units (not counting recreational vehicle sites) are available for [STR](#); and



- the Underwritten NCF accurately incorporates all STR income.

You must include the following information in your underwriting analysis:

- Borrower's strategy for implementing STR;
- a description of the STR arrangement;
- length of time the STR has been in place;
- Borrower's action plan for handling liability issues for
 - STR tenants at the Property, and
 - safety concerns for non-STR tenants;
- if the STR units are furnished or unfurnished; and
- confirmation that the
 - STR is legally permissible and in compliance with applicable laws and zoning,
 - Borrower's or master tenant's insurance covers any STR, and
 - Property is residential in nature (i.e., not operated as a hotel or other single room occupancy arrangement).

➔ Guidance

Examples of an STR arrangement include an arrangement between the Borrower and:

- a tenant/master tenant, where the tenant/master tenant has an agreement with an STR provider or platform (such as Airbnb, VRBO®, etc.); or
- an STR provider or platform, where the Borrower's tenants may make their units available for STR.

You should seek to establish a leasing history of at least 12 months for any STR unit.

Section 110 Renewable Energy Generation Systems

110.01 Acceptable Renewable Energy Generation Systems



Requirements

Any operational renewable energy generation system benefitting the Property or the Borrower must be:

- located on the Property;
- comprised of a Solar PV System;
- Borrower-owned; and
- installed, or installation will begin, on or before the Mortgage Loan Origination Date.

110.02 Solar Photovoltaic Systems

Requirements

For any Property with an acceptable Solar PV System, you must ensure:

- All equipment, including energy storage, is located on the Property and owned by the Borrower.
- The Borrower has all required permits, licenses, and certificates to comply with all utility tariffs and laws governing the
 - generation,
 - storage,
 - transmission, and
 - distribution of electricity.
- The Property will remain connected to the utility grid even if the Solar PV System output is sufficient for all of the Property's energy needs.
- The Borrower will not be characterized or regulated as a public utility.
- Any power generated from the Solar PV System that is not consumed or stored on-site is only sold to the local utility, not to any other third party.
- Any battery storage system is designed only for on-site uses (e.g., peak shaving), and the Borrower has not arranged for ancillary services with any utility or third party.
- The Borrower executes Modifications to Multifamily Loan and Security Agreement (Mortgage Loan with installed Solar Photovoltaic System) (Form 6270).



→ Guidance

You should engage legal counsel with solar photovoltaic system experience and state-specific knowledge to review all applicable local laws, contracts, and agreements regarding the [Solar PV System](#) installation and operation, including:

- the interconnection agreement with local distribution company or utility;
- any net metering agreements;
- engineering, procurement, and construction contracts or agreements;
- any Operating and Maintenance Agreements;
- notice of Permission to Operate (or similar document) provided by local distribution company or utility;
- any supplemental financing or financing incentives (e.g., grants, tax credits, etc.) used by the [Borrower](#) to finance the [Solar PV System](#) to determine if any competing liens or other restrictions might result;
- any leases or contractual arrangements, such as agreements for
 - renewable energy certificates,
 - solar renewable energy certificates, or
 - purchasing power; and
- confirming that [Borrower](#) will not be deemed a public utility.

110.03 Solar PV System Module

Requirements

The [PCA](#) must include an evaluation of the [Solar PV System](#) equipment and roofs/structures where the equipment is mounted per the Solar PV Module of [Form 4099](#).

110.04 Underwritten NCF

Requirements

When calculating [Underwritten NCF](#):

- do not include any income derived from the [Solar PV System](#), except for tenant utility reimbursement;



- any utility reimbursement income must
 - not exceed the trailing 12-month period, and
 - consider any decrease from the lower utility expense;
- utility expense must be supported by the trailing 12-month operating history; and
- include all additional **Solar PV System** operating expenses such as:
 - operating and maintenance contract fees;
 - fixed utility fees;
 - incremental real estate taxes;
 - insurance coverage; and
 - **Replacement Reserves** for equipment replacement and/or system removal and reinstallation upon roof replacement.

Section 111 Oil/Gas Wells and Mineral Exploration

111.01 Active Oil and Gas Wells

Requirements

You must ensure the **Property** has no evidence of any surface entry related to active mineral, oil, or gas activities.

For **Properties** with mineral, oil, or gas exploration on an adjacent property, you must:

- Identify whether the exploration is active or inactive.
- Deliver a **Phase I ESA** for the **Property** reporting no Recognized Environmental Conditions.
- Confirm all mineral, oil, or gas:
 - equipment is located more than 600 feet from any **Property** boundary line; and
 - exploration on the adjacent property does not impact the health or safety of the **Property's** tenants or have a material adverse impact to its marketability.
- Confirm:
 - the adjacent property is not owned by an **Affiliate** of the **Borrower**;



and

- either:
 - no history of spills or leaks exists; or
 - if spills or leaks have occurred, all applicable permits are in place.

Guidance

Evidence of active mineral, oil, or gas activities on the [Property](#) may include:

- wells associated with production, exploration, or extraction;
- active storage or processing; or
- associated pits, ponds, or lagoons.

111.02 Inactive Oil and Gas Wells

Requirements

You must ensure the [Property](#) has no evidence of inactive mineral, oil, or gas equipment, unless:

- the [Property's Phase I ESA](#) is acceptable;
- if the [Property](#) is subject to an oil and gas lease, the lease complies with [Part II, Chapter 1: Attributes and Characteristics, Section 109.02B: Non-Material Commercial Lease Types](#); and
- for a refinance, all mineral, oil, or gas equipment has been removed, capped, and closed per regulatory requirements before closing, and you have a permit or closure letter from the governing authority; or
- for an acquisition, you:
 - require the mineral, oil, or gas equipment/wells to be removed, capped, and closed per regulatory requirements within 180 days after the [Mortgage Loan](#) closing;
 - escrow the applicable cost to remove equipment, close wells, and remediate the site per regulatory requirements;
 - receive a permit or closure letter from the governing authority; and



- modify the Environmental Indemnity Agreement as required by Fannie Mae.

Section 112 Property Management and Agreement

112.01 Property Management

Requirements

You must ensure the **Property's** management team is adequate.

Guidance

An independent, professional **Property** management company is not required. However, when analyzing **Property** management, you should consider if the management team:

- has adequate experience to ensure effective **Property**
 - administration,
 - leasing,
 - marketing, and
 - maintenance; and
- is staffed appropriately for the
 - **Property** type and size, and
 - services provided.

112.02 Property Management Agreement

Requirements

If the **Borrower** is not the **Property** manager, you must ensure the:

- **Borrower** has a written management agreement with a **Property** management company allowing **Lender** cancellation without penalty or prior notice in case of a **Borrower** default per the **Loan Documents**; or
- **Borrower** and **Property** manager complete the Assignment of Management Agreement (**Form 6405**).



➔ Guidance

You should ensure the **Property** management agreement clearly states the

- **Property** manager's responsibilities, and
- amount of the management fee (or fee determination methodology).



Chapter 23

Expanded Housing Choice

✓ Requirements

To be eligible for an Expanded Housing Choice pricing incentive, all of the following must be met:

- The Borrower must agree to:
 - accept Housing Choice Vouchers throughout the Mortgage Loan term;
 - not discriminate against applicants, tenants, their family members, and occupants for using Housing Choice Vouchers to pay rent and other lawful fees, by:
 - applying stricter screening standards;
 - calculating any HCV renter income requirements based on the full rent payment rather than on the HCV renter portion of the rent;
 - charging larger
 - security deposits,
 - rent, or
 - fees; or
 - subjecting HCV renters to additional or alternative community rules;
 - advertise the Property and/or available units
 - with participating Public Housing Agencies, and
 - on <https://www.affordablehousing.com> (or successor site); and
 - execute a Modification to Multifamily Loan and Security Agreement (Expanded Housing Choice) (Form 6273).
- The Property:
 - jurisdiction is eligible per the following table:



Does the Property jurisdiction have Source of Income Protections for Housing Choice Voucher renters?	Expanded Housing Choice Eligibility
<u>Currently in effect</u>	<u>No</u>
<u>Currently in effect, but enacted legislation will rescind them within 24 months after the Mortgage Loan Origination Date</u>	<u>Yes</u>
<u>Not currently in effect</u>	<u>Yes</u>
<u>Not currently in effect, but enacted legislation will establish them within 24 months after the Mortgage Loan Origination Date</u>	<u>No</u>

- is not already required to accept Housing Choice Vouchers as a financing condition, such as per
 - an Affordable Regulatory Agreement,
 - Sponsor-Initiated Affordability Agreement, or
 - LIHTC agreement; and
- on the Mortgage Loan Origination Date, has at least 40% of its units within the applicable HUD Fair Market Rent or Small Area Fair Market Rent as adjusted per the applicable Public Housing Agency payment standard.

Operating Procedures

You must use the:

- Housing Choice Vouchers: Expanded Housing Choice (EHC) Job Aid to commit and Deliver a Mortgage Loan qualifying for an Expanded Housing Choice pricing incentive; and
- Expanded Housing Choice Frequently Asked Questions to calculate the HCV renter's portion of rent.



Chapter 4 Asset Management: Loan Document Administration

Section 401 Servicing Requirements

401.01 General

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

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

This Chapter covers the [Servicer's](#):

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

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

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

Fannie Mae email addresses and contact information for



notices required in this Chapter are located in the Glossary.

401.02 Monitoring Compliance with Loan Documents

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

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

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

Section 402 Delegation of Decision-Making Authority; Retention of Outside Legal Counsel

402.01 Delegation of Decision-Making Authority

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

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



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

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

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

402.02 Retention of Outside Legal Counsel

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

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

Fannie Mae will:

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

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



Section 403 Execution of Documents by Servicer – Limited Power of Attorney

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

Section 404 Execution of Documents by Fannie Mae

404.01 Submission of Documents to Fannie Mae

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

The [Servicer](#) must include directions for returning the documents, including:

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

404.02 Servicer Certification When Fannie Mae Approval Is Not Required

For any document submitted to Fannie Mae for execution when the servicing decision has been delegated to the [Servicer](#), the



Servicer must provide written certification to Fannie Mae that:

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

404.03 Servicer Certification When Fannie Mae Approval Is Required

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

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

Section 405 Fees Due to Fannie Mae

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



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

ABA Number: 021 039 500

Telegraphic Abbreviation: FNMA/NYC

Account Number: 169220242

Note: Type of fee (e.g., Assumption/Transfer),

Fannie Mae Loan Number and Property Name

Attention: Trans code 507 - GL 747669921.

Section 406 Follow-Up Actions by the Servicer

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

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

Section 407 Subordinate Financing



407.01 Non-Fannie Mae Subordinate Financing

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

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

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

407.02 Prerequisite for Subordinate Financing

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



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

407.03 Fees for Subordinate Financing

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

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

407.04 Submitting the Request for Subordinate Financing

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

- the [Servicer](#) must submit the request to Fannie Mae at least 30 days before the projected closing date of the [Subordinate Loan](#); and
- the submission must contain:
 - an [Appraisal](#) (obtained at the [Borrower's](#) cost), dated no earlier than 90 days prior to the date of the [Borrower](#) request for approval of the [Subordinate Loan](#), that complies with [Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation](#);
 - [Servicer's](#) underwriting spreadsheet showing the [Subordinate Loan's](#) effect on the [Property's](#) income, expenses, [NCF](#), [DSCR](#), and [LTV](#);
 - a copy of the final, unsigned loan documents evidencing the [Subordinate Loan](#), with the loan amount, interest rate, payment schedules, and all other



transaction related information completed;

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

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

407.05 Fannie Mae Approval and Execution

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

407.06 Subsequent Servicer Actions

The **Servicer** must:

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



the [Lien](#) of the subordinate security instrument; and

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

Section 408 Administration of Collateral Agreements

408.01 General Administrative Requirements

408.01A Administration of Funds

The [Servicer](#) must:

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

408.01B Funds to be Held in a Custodial Account

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

408.01C Use of Funds

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



408.01D Funds as Additional Security for Mortgage Loan

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

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

408.01E Servicer's Fees and Costs

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

408.01F Waiver or Modification of Terms of Collateral Agreement

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

408.02 Achievement Agreement or Other Agreement for Additional Collateral

408.02A General

The provisions of this Section govern [Achievement Agreements](#) and all [Collateral Agreements](#), other than:

- [Multifamily Loan Agreements](#), including the



Completion/Repair Schedule and Replacement Reserve Schedule;

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

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

408.02B Releases or Reductions in Collateral

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

1. General

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

2. Supporting Documentation and Analysis

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

(a) Income and Expense Statements; Current Rent Roll

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



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

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

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

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

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



Borrower's statement.

(b) Servicer's Analysis

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

(c) Correspondence

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

3. Property Inspection

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

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

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

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

1. Draws Triggered by Adverse Events

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

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



Agreement or other Collateral Agreement; or

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

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

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

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

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

3. Draws Occasioned by Borrower Request

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



Servicer must deny the Borrower request.

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

4. No Interest on Proceeds Held by Fannie Mae

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

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

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

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

The Servicer is delegated the authority to:

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

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

408.03 Completion/Repairs



408.03A General

The [Loan Documents](#) for administering [Completion/Repairs](#) are:

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

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

408.03B Extensions for Completion/Repairs

The [Servicer](#) is delegated the authority to extend the time limits for making [Completion/Repairs](#) if:

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

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

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



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

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

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

The [Servicer](#) is delegated the authority to:

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

408.03C Completion/Repair Loan Document Amendments

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

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

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



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

The Servicer must:

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

408.03D Servicer's Administrative Requirements

For all Completion/Repairs, the Servicer must:

- retain a copy of the executed Multifamily Loan Agreement and Completion/Repair Schedule or Completion/Repair Agreement in its Servicing File;
- hold all Completion/Repair Escrow funds in an account that meets the Custodial Account requirements of Part V, Chapter 3: Custodial Accounts;
- ensure that all necessary permits are obtained, and that all required work is satisfactorily completed in a good and workmanlike manner by the completion dates stipulated in the Loan Documents;
- for a Green Rewards Mortgage Loan, ensure all Efficiency Measures are completed in a timely manner and no later than:
 - 12 months after the Mortgage Loan Origination Date; or
 - any shorter time period per Part II, Chapter 4: Inspections and Reserves, Section 403: Property Condition Assessment (PCA) for capital improvements identified as Immediate Repairs by the PCA;
- process Borrower requisitions for funds in accordance with the terms and conditions of the Loan Documents;
- perform required inspections of completed work and, if appropriate, work in progress and, if necessary, arrange inspections by qualified professionals;



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

408.03E Processing Borrower Requisitions

1. General

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

2. Required Documentation for Disbursement

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

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

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

- a **Borrower** certification that the specific **Completion/Repairs** have been completed:



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

3. Disbursement of Funds (Excluding Final Disbursement)

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

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



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

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

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

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



the required completion dates; and

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

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

4. Final Disbursement of Funds

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

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

5. Maintenance of Servicing File

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

408.03F Inspections

1. Use of Third Party

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



the third-party's performance.

2. When Periodic Inspections Are Required

Periodic inspections must be performed as the work progresses if the [Completion/Repairs](#):

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

Inspections must occur at least every 6 months, or more frequently at the [Servicer's](#) discretion.

3. When a Final Inspection Is Required

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

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

4. Confirming Completion/Repairs if Inspection Is Not Required

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

5. Documenting the Servicing File

In all instances, the [Servicer](#) must document in its [Servicing File](#) whether all work was satisfactorily completed.

408.03G Fees

[Completion/Repair Escrow](#) funds may not be used to cover



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

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

408.03H Completion/Repair Defaults

1. Notification of Default to Fannie Mae

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

2. No Release of Funds to Borrower

No funds may be released to the [Borrower](#) while the [Borrower](#) is in default under any of the [Loan Documents](#).

408.03I Green Rewards Efficiency Measure Verification

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

1. Green Rewards Verification Inspection

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

2. Minimum Inspector Qualifications

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



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

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

3. Unit Inspection

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



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

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

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

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

4. Determining Compliance

An Efficiency Measure is compliant when the inspector:

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



- documents it on Form 4221.

5. Remediating Noncompliance

When an Efficiency Measure is noncompliant:

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

6. Verification Inspection Form Review

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

408.04 Replacement Reserve

408.04A General

The Loan Documents for administering Replacement Reserves are:

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

The Replacement Reserve funds must be held by the Servicer



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

408.04B Replacement Reserve Loan Document Amendments

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

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

408.04C Servicer's Administrative Requirements

For all [Replacement Reserves](#), the [Servicer](#) must:

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



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

408.04D Modifications to Replacement Reserve Deposits

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

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

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

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

408.04E New Property Condition Assessments

1. Timing and Waivers



A new full PCA per Form 4099 is required for:

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

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

Remaining Loan Term	Servicer Delegation
Less than 1 Year	The new PCA may be waived for a Mortgage Loan with a: <ul style="list-style-type: none">• Pass rating;• Property inspection less than 1 year old; and• Property condition rating of 1, 2, or 3.
1 Year to 5 Years	The new PCA may be waived for a Mortgage Loan with a: <ul style="list-style-type: none">• Pass rating;• Property inspection report less than 1 year old; and• Property condition rating of 1 or 2.
More than 5 Years	The new PCA may be waived for 5 years for a Mortgage Loan with a: <ul style="list-style-type: none">• Pass rating;• Property Inspection report less than 1 year old; and• Property condition rating of 1 or 2.

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

All PCA waivers must be documented in the Servicing File,



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

2. Delivery and Payment of Property Condition Assessment

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

408.04F When Replacement Reserve Funding Was Partially or Fully Waived

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

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

408.04G Interest on Replacement Reserve Funds

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

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

408.04H Items Eligible for Funding from the Replacement Reserve

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

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



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

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

408.04I Items Not Eligible for Funding from the Replacement Reserve

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

408.04J Processing Borrower Requisitions

1. General

The [Loan Documents](#) specify the frequency, timing, and size of disbursements from the [Replacement Reserve](#).

2. Required Documentation

Each [Borrower](#) requisition must be in writing and specify, at a minimum:

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



replaced (e.g., refrigerators);

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

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

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

3. Disbursement of Funds

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

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



bonded over; and

- the **Borrower** is not in default under any **Loan Document**.

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

4. Maintenance of Servicing File

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

408.04K Inspections

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

408.04L Fees

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

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

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



scheduled **Property** inspection.

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

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

408.04M Replacement Reserve Defaults

1. Notification of Default to Fannie Mae

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

2. No Release of Funds to Borrower

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

408.04N Return of Replacement Reserve Funds to Borrower

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

408.04O Alternative Funding of Replacement Reserves for Portfolio Mortgage Loans

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

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



Section 409 Interest Rate Hedge Requirements

409.01 General

An acceptable [Interest Rate Hedge](#) must be in place and maintained at all times for:

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

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

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

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

409.02 Interest Rate Hedge Coverage

409.02A Bond Credit Enhancement Transactions

For [Bond Credit Enhancement Mortgage Loans](#), the [Interest Rate Hedge](#) must:

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

409.02B Structured Transactions



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

409.02C All Hedges

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

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

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

409.03 Interest Rate Hedge Term

The **Servicer** must:

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

409.04 Lien Filings and Collateral

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



409.05 Borrower Payments

409.05A Interest Rate Caps

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

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

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

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

409.05B Interest Rate Swaps

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

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

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



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

409.06 Provider Ratings

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

409.07 Replacement Interest Rate Hedge and Notification

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

If the [Borrower](#) elects to obtain a new [Interest Rate Hedge](#), the [Servicer](#) must confirm that the possible [Interest Rate Hedge](#) providers are all on the current list of approved [Cap/Swap Counterparties for Multifamily Transactions](#), and review the [Loan Documents](#) for the timing requirements.

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

409.08 Replacement Interest Rate Hedge Documents and Follow Up

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



Hedge information as follows:

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

Section 410 Ground Leases

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

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

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

Section 411 Notice of Lien or Noncompliance with Applicable Laws, Ordinances and Regulations

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

- take all reasonable actions to prevent the filing of any Lien that would prime the Lien of the Security Instrument;
- immediately notify Multifamily Asset Management, in writing, upon learning of any such Lien filing, including a



recommendation for resolving the situation; and

- submit a Non-Monetary Default Borrower Request in the [MAMP](#), if:
 - the [Servicer](#) is aware of any material violation by the [Borrower](#) or [Property](#) management agent of any applicable law, ordinance, regulation, or other legal requirement; or
 - the [Property](#) is not in compliance with any applicable law, ordinance, regulation, or other legal requirement, including, without limitation, any relating to:
 - Fair Housing Act;
 - Americans with Disabilities Act;
 - non-discrimination;
 - environmental hazards;
 - occupancy;
 - zoning and land use;
 - health, fire, and building codes relating to immediately hazardous conditions; and
 - illegal use of the [Property](#).

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

Section 412

Property Forfeitures and Seizures

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

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



papers received by the [Servicer](#) in connection with the contact. The [Servicer](#) must continue to service the [Mortgage Loan](#).

Section 413 Property and Liability Insurance

413.01 Property and Liability Insurance

The [Servicer](#) must:

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

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

413.02 No Financing for Property and Liability Insurance Premiums

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

413.03 Flood Map Changes; Obtaining Flood Insurance

The [Servicer](#) must monitor all flood map and community status changes, and take appropriate action when changes affecting [Mortgage Loans](#) it services occur as required by [Part II, Chapter 5: Property and Liability Insurance](#). When a [Property](#) is remapped into a [Special Flood Hazard Area](#), the [Servicer](#) must require the [Borrower](#) to obtain flood insurance, regardless of whether the community is “participating” in the [National Flood Insurance Program](#). The flood insurance policy must be in place within 45 days after the effective date of the remapping. If the [Borrower](#) refuses to obtain the required coverage or pay a disputed premium, the [Servicer](#) must obtain the required coverage. The [Servicer](#) must contact [Multifamily Insurance](#) if:



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

413.04 Lender Placed Insurance

413.04A Property and Liability Insurance

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

413.04B Flood Insurance

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

413.04C Servicer's Administrative Costs and Expenses

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

Section 414 Casualty Losses – Performing Mortgage Loans

414.01 Notice

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

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

A revised **Form 178** must be submitted if any of the information on the form changes for any casualty loss greater than the lesser of (i) \$500,000, or (ii) 20% of the **UPB**.



414.02 Filing Proof of Loss

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

414.03 Casualty Loss Assessment

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

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

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



necessary repair and restoration work, and the current availability of such funds; and

- any other relevant information pertaining to the loss event that is known to the **Servicer** and could have a material bearing on Fannie Mae's interests.

414.04 Required Casualty Loss Property Inspection

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

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

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

An inspection by the **Servicer** is optional if the casualty loss is expected to be less than (i) \$500,000, or (ii) 20% of the **UPB**, and none of the above conditions exist. If the **Servicer** elects not to inspect the



Property, the Servicer must confirm during the next Property inspection, and document in its Servicing File, that the repair and restoration work was satisfactorily completed. If the Servicer determines that the repair or restoration work was not satisfactorily completed, the Servicer must notify Multifamily Inspections and Multifamily Loss Mitigation) in writing, as required by Part V, Chapter 5: Surveillance.

414.05 Documentation for Required Casualty Loss Property Inspections

After inspecting the Property, the Servicer must:

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

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

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

Fannie Mae

By: [Name of Servicer]

By: [Name of Servicer's Authorized Signer]

[Title of Servicer's Authorized Signer].

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

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

If the insurance loss draft or check is payable to the Servicer, the Servicer is authorized to endorse the draft or check and apply the proceeds in accordance with this Section. The Servicer must also send the Insurer an Insurance Loss Payee Notice Letter (Form 4803) so that



all future insurance loss drafts and checks will be issued to Fannie Mae in care of the **Servicer**. The **Servicer** must retain a copy of the Insurance Loss Payee Notice Letter (Form 4803) in its **Servicing File**.

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

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

414.09 Application of Insurance Loss Proceeds

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

414.09A Fannie Mae Determination Required

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

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



Documents; or

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

414.09B Disposition of Insurance Loss Proceeds

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

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

414.10 Property Restoration Requirements

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

- deposit all insurance loss proceeds in a [Custodial Account](#) meeting the requirements of [Part V, Chapter 3: Custodial Accounts](#), to incrementally reimburse the [Borrower](#) for the cost of repairing the damage;
- require the [Borrower](#) to deposit, in the same [Custodial Account](#), funds equal to the difference between (a) the [Servicer's](#) estimate of the total cost to repair and restore the [Property](#) to its pre-casualty condition, and (b) the amount of the insurance proceeds;
- for losses greater than \$75,000, prepare and have the [Borrower](#) execute the applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) ([Form 6615](#)) for use with the 6000 series [Loan Documents](#) if documented before the June 2019 [Loan Document](#) publication, or Insurance Loss Proceeds Collateral Agreement ([Form 6639](#)) for use with the 4000 series [Loan](#)



Documents, specifying the terms and conditions under which the funds held in the [Custodial Account](#) will be released to the [Borrower \(Form 6615\)](#) is not required for [Mortgage Loans with Loan Documents](#) documented after the June 2019 [Loan Document](#) publication); and

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

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

Within 7 days of execution, the [Servicer](#) must submit through the [MAMP](#) copies of:

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

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

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

The [Servicer](#) must send to [Multifamily Certification and Custody](#) within 15 [Business Days](#) the original executed copy of any Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) ([Form 6615](#)) or Insurance Loss Proceeds Collateral Agreement ([Form 6639](#)), and retain in its [Servicing File](#) the original:



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

414.11 Commencement of Repair/Restoration Work

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

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

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

414.12 Disbursements

414.12A Prerequisites for Disbursement of Funds

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



satisfied that:

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

414.12B Disbursing Funds

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

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

414.12C Content of Disbursement Request

Each of the **Borrower's** disbursement requests must be in



writing and must specify, at a minimum:

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

The **Borrower's** disbursement requests must be accompanied by:

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

414.12D Disbursement Amount

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

(i) an amount equal to:

- the actual cost of the repair and restoration work covered by the disbursement request, or, if the work was done under a contract or subcontract



pursuant to which other work remains to be done, an amount equal to 90% of the actual cost of the repair and restoration work covered by the disbursement request (i.e., a 10% holdback is required if the work under the applicable contract or subcontract has not been completed in full); plus

- 100% of the cost of any materials used, or to be used, in connection with the repair and restoration work, if at the time of the disbursement request, title to the materials has passed to the **Borrower** and the materials have been installed, or are being properly stored, on the **Property**; or

(ii) an amount equal to the difference between:

- the balance of the **Collateral Agreement Custodial Account** at the time of the disbursement request; and
- the estimated cost of all remaining repair and restoration work at that time of the disbursement request.

414.12E Final Disbursement; Notice to Fannie Mae

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

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

414.12F Documentation in Servicing File

The **Servicer** must ensure that all actions taken with respect to each **Borrower** disbursement request are appropriately documented in its **Servicing File**.



414.13 Borrower's Failure to Diligently Pursue Repair

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

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

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

414.14 Reimbursement of Administrative Costs

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

Section 415 Casualty Losses – Non-Performing Mortgage Loans

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

Section 416 Credit Facilities and Bulk Deliveries

416.01 General

Each **Credit Facility** and **Bulk Delivery** transaction is different,



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

416.02 Delegation of Decisions

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

416.02A Decisions and Actions Not Delegated

Decisions and actions are not delegated to the **Servicer** when a request involves:

- amendments or changes to the **Master Credit Facility Agreement**, **Bulk Delivery Agreement**, or equivalent agreement, except for the Fannie Mae standard form (i) Amendment for Completion/Repair extensions, and (ii) changes to the monthly **Replacement Reserve** deposits;
- **Supplemental Mortgage Loans** or borrow-ups (future advances);
- additions, releases, or substitutions of collateral;
- revaluation and determination of the **Allocable Facility Amount**;
- **Transfers/Assumptions**;
- the interest rate conversion from variable to fixed on a **SARM Loan**;
- **Interest Rate Hedge** renewals or modifications;
- refinances;
- defeasance;
- payoffs/terminations;
- **Ground Lease** or operating lease modifications; or
- **Property** management or operator changes.

416.02B Decisions Delegated by the Delegated Transaction Form 4636 series

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



submit the completed [Delegated Transaction Form](#) (Form 4636 series) through the [MAMP](#).

416.02C Other Delegated Decisions

Decisions and actions involving the following are delegated to the [Servicer](#) to the extent delegated in this Chapter:

- [Letter of Credit](#) replacements and draws;
- Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreements (Form 6639);
- endorsing insurance checks;
- extensions to complete [Completion/Repairs](#);
- changes to the monthly [Replacement Reserve](#) deposits;
- administering escrow accounts; and
- administering [Collateral Agreements](#).

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

416.03 Approval Requests

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

416.04 Release and Substitution Requests

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

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

- the [Servicer's](#) summary of the [Borrower's](#)



- release/substitution request, and its recommendation regarding approval of the requested release/substitution;
- any waiver requests and the **Servicer's** recommendation for approval of each waiver;
 - when the **Borrower** expects the release/substitution to close;
 - whether the **Property** meets all conditions to release/substitute and compliance tests (e.g., **LTV**, **DSCR**, geographic/asset concentration) stipulated in the **Master Credit Facility Agreement**, **Bulk Delivery Agreement**, and other **Loan Documents**;
 - for a **Credit Facility**, the release price and calculations (calculated according to the terms of the **Master Credit Facility Agreement** and other **Loan Documents**);
 - for a **Credit Facility**, the remaining **Allocable Facility Amount** balance of the facility and each property after the release;
 - the amount of the release/substitution fees associated with the transaction;
 - whether a prepayment or advance of funds is expected to occur in connection with the transaction;
 - the Structured Facilities Monitoring Spreadsheet (**Form 4802**) showing the **Mortgage Loan** level and collateral level data for the Structured Transaction both before and after the release/substitution occurs;
 - third-party reports; and
 - any other items required by the **Loan Documents**.

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

If the request is approved, the **Servicer** must:

- submit its payoff calculations to **Multifamily Structured Acquisitions**;
- release the collateral from the **MSFMS** system; and



- if necessary, release, update, and verify any interest rate hedges associated with the transaction in MSFMS.

416.05 Borrow-Up (Future Advance) Requests

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

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

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



- any other items required by the [Loan Documents](#).

416.06 Facility Revaluations

Revaluations of [Credit Facilities](#) and [Bulk Deliveries](#) occur as required by the [Master Credit Facility Agreement](#) and [Bulk Delivery Agreement](#). [Servicers](#) must send recommended property cap rates and values along with supporting market information through the [MAMP](#). Upon completion of Fannie Mae's review, the [Servicer](#) will be notified of the final cap rate determination and valuation. The [Servicer](#) must promptly notify the [Borrower](#) of the revised cap rates, [Property](#) values, [Allocable Facility Amounts](#), [LTV](#), and the failure to meet any compliance tests (if applicable). The [Servicer](#) must attach a copy of this [Borrower](#) correspondence to the request in the [MAMP](#).

416.07 Supplemental Mortgage Loans Not Permitted

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

416.08 Additional Information

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

Section 417 Seniors Housing Properties

417.01 General

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

417.02 Decisions and Actions Delegated and Not Delegated

Decisions and actions covered by the [Delegated Transaction Form \(Form 4636 series\)](#) are delegated to the [Servicer](#) as set forth in the applicable [Form 4636 series](#) or the [Guide](#). For these requests, the [Servicer](#) must submit the completed applicable [Form 4636 series](#) through the [MAMP](#). Decisions and actions for [Seniors Housing](#)



Mortgage Loans regarding the following are not delegated to the Servicer:

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

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

417.03 Approval Requests

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

417.04 Seniors Housing Expansion/Conversion Requests

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



and requirements:

417.04A Permitted Purpose

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

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

417.04B Submission Requirements

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

- Sponsor name and experience in operating seniors housing properties;
- Mortgage Loan performance;
- financial performance (including NCF and UPB history, and DSCR and LTV trends);
- pro forma financial statements;
- sources/uses of funds statement;
- project budget, scope, and plans;
- market study;
- construction contract and timeline;
- Servicer’s monitoring plan;
- licensure issues;
- insurance; and
- general contractor and major subcontractors.

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



417.04C Requirements and Monitoring

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

- Escrow:
 - the **Borrower** must escrow 25% of the estimated construction costs with the **Servicer**, who will administer the funds through a standard construction draw process; and
 - the **Borrower** must demonstrate to the **Servicer's** satisfaction that it has sufficient liquid assets to complete the construction;
- Minimum **DSCR** during the expansion/conversion period cannot fall below 1.15x;
- Completion of construction must occur no later than 18 months from the date of commencement;
- Construction monitoring requirements will be set forth in the approval letter;
- Fannie Mae will charge a construction monitoring fee which does not cover the expenses associated with third-party inspections;
- Completion Guaranty (**Form 6018**, **Form 6632**, or **Form 6633**) and, if determined applicable by Fannie Mae, an Agreement and Assignment Regarding General Contractor's Contract (**Form 6473**), and an Omnibus Assignment of Contracts, Plans, Permits, and Approvals (**Form 6473**), will be required;
- Fannie Mae will charge a change in use fee, and the **Servicer** may charge additional fees at its discretion, subject to approval by Fannie Mae;
- The **Borrower** must reimburse all legal costs incurred by Fannie Mae; and
- A fixed-price general construction contract provided by a general contractor, together with a payment and performance bond issued by an acceptable surety, will be required.

417.04D Construction Completion Requirements



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

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

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

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



Section 418 Credit Enhancement Mortgage Loans and Multifamily Affordable Housing Properties

418.01 Bond Transactions and Credit Enhancement Mortgage Loans

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

418.02 Compliance Issues Relative to Bond Credit Enhancement Transactions

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

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

418.03 Monitoring Compliance; Notification of Noncompliance

418.03A Affordable Regulatory Agreement

At least once in each calendar year (and more often if directed by Fannie Mae), the **Servicer** must obtain a **Borrower** certification that the **Property** is in full compliance with:

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

The **Servicer** must review the **Borrower** certificate, and if the **Property** does not comply with all applicable regulatory requirements, the **Servicer** must immediately notify **Multifamily Asset Management**. Neither Fannie Mae nor the **Servicer** is responsible for determining or



ensuring the Borrower's compliance under the Affordable Regulatory Agreement.

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

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

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

418.04 Multifamily Affordable Housing (MAH) Properties

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

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

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

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

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



418.05 Low-Income Housing Tax Credits

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

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

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

418.06 Enhanced Resident Services

The **Borrower** must annually recertify the **Property** and submit each recertification to the **Servicer** within 75 days following the end of each **Loan Year**. The **Servicer** must collect the initial certification and each recertification in the **Servicing File**. For any recertification failure, the **Servicer** must promptly notify Fannie Mae through the **MAMP**, or such other method indicated by Fannie Mae. Additionally, the **Servicer** must promptly submit a Non-Monetary Default **Borrower** Request in the **MAMP** if the **Property** later achieves recertification. After recertification, the **Servicer** must then resume annual compliance monitoring at the end of each subsequent **Loan Year**.

418.07 Expanded Housing Choice

A **Mortgage Loan** with an Expanded Housing Choice pricing incentive requires additional monitoring. **Per the Loan Documents, the Servicer must:**



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



- the results of the rent roll and lease file review submitted with the first Form 6620-Supplemental.Expanded Housing Choice; and
- any Borrower notices required for:
 - Fair Housing training;
 - Loan Document default; or
 - pricing incentive recapture.

Fannie Mae:

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

Fannie Mae:

- may conduct fair housing testing for a Mortgage Loan delivered with an Expanded Housing Choice pricing incentive; and
- will notify the Servicer if the fair housing testing or any other information reveals the Borrower is not complying with Expanded Housing Choice (21346); and may, for any noncompliance:
 - require the Borrower's employees to complete fair housing training;
 - require Supplemental Annual Loan Agreement



Certification (Expanded Housing Choice) (Form 6620.Supplemental.Expanded Housing Choice); and/or

- notify the Borrower it is in default.

The Servicer must:

- if not already received by April 15, notify the Borrower a rent roll or rent schedule dated as of December 31st of the previous year is due 120 days after the end of the prior calendar year;
- within 120 days after each December 31:
 - obtain from the Borrower the rent schedule or rent roll dated as of December 31 of the previous year; and
 - submit a Streamlined Rent Roll (Form 4241);
- comply with the following table for any Loan Document defaults; and
- retain in its Servicing File, copies of:
 - Form 4241;
 - any required Form 6620.Supplemental.Expanded Housing Choice; and
 - any Borrower notices, including Reservation of Rights Letters (Form 4804), required for:
 - fair housing training; or
 - Loan Document defaults.



If the Borrower...	The Servicer must...
<p>Fails to submit the December 31 rent roll or rent schedule for the prior year within 120 days after the end of the calendar year</p>	<ul style="list-style-type: none"> • send the Borrower a Reservation of Rights Letter (Form 4804) specifying: <ul style="list-style-type: none"> - the rent roll must be submitted within 30 days; and - if not submitted, the Expanded Housing Choice Monetary Penalty will be due per the Modification to Multifamily Loan and Security Agreement (Expanded Housing Choice) (Form 6273); and • submit a Non-Monetary Default Borrower Request in the MAMP.
<p>Fails to submit the December 31 rent roll or rent schedule for the prior calendar year within the 30-day period after receipt of the Reservation of Rights Letter</p>	<p>collect from the Borrower and remit to Fannie Mae the Expanded Housing Choice Monetary Penalty per Form 6273.</p>
<p>Fails to submit any required Expanded Housing Choice Monetary Penalty per Form 6273</p>	<ul style="list-style-type: none"> • send the Borrower a Reservation of Rights Letter (Form 4804) stating the Borrower is in default; and • submit a Non-Monetary Default Borrower Request in the MAMP.
<p>Fails a first round of fair housing testing</p>	<p>ensure the Borrower conducts fair housing training for its employees per Fannie Mae's requirements.</p>



If the Borrower...	The Servicer must...
<p><u>Fails a second round of fair housing testing</u></p>	<ul style="list-style-type: none"> • <u>ensure the Borrower conducts additional fair housing training for its employees per Fannie Mae's requirements; and</u> • <u>require the Borrower to submit Supplemental Annual Loan Agreement Certification (Expanded Housing Choice) (Form 6620.Supplemental.Expanded Housing Choice).</u>
<p><u>Fails to complete any required fair housing training within the required time frame</u></p>	<ul style="list-style-type: none"> • <u>send the Borrower a Reservation of Rights Letter (Form 4804) stating the Borrower is in default; and</u> • <u>submit a Non-Monetary Default Borrower Request in the MAMP.</u>
<p><u>Fails to provide any required Supplemental Annual Loan Agreement Certification (Expanded Housing Choice) (Form 6620.Supplemental.Expanded Housing Choice)</u></p>	<ul style="list-style-type: none"> • <u>send the Borrower a Reservation of Rights Letter (Form 4804) stating the Borrower is in default; and</u> • <u>submit a Non-Monetary Default Borrower Request in the MAMP.</u>
<p><u>Fails a third round of fair housing testing</u></p>	<ul style="list-style-type: none"> • <u>ensure the Borrower enters into a remedial housing plan with Fannie Mae per Form 6273; and</u> • <u>submit a Non-Monetary Default Borrower Request in the MAMP.</u>



<u>If the Borrower...</u>	<u>The Servicer must...</u>
<u>Is otherwise determined not to be complying with Expanded Housing Choice (21346)</u>	<ul style="list-style-type: none">• <u>send the Borrower a Reservation of Rights Letter (Form 4804) stating the Borrower is in default; and</u>• <u>submit a Non-Monetary Default Borrower Request in the MAMP.</u>

418.08 HAP Contract Approval and Releasing Restabilization Reserve

The **Servicer** is delegated the authority to:

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

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

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

- the **Servicer** has received written evidence that the **HAP contract** has been extended by **HUD** through the **Maturity Date** with no material changes to its terms;
- no default has occurred and is continuing under the **Loan Documents**; and
- the **Loan Documents** explicitly allow a final disbursement under these conditions.

Section 419

Sponsor-Dedicated Workforce Housing Properties

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



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

Section 420

MH Communities with Tenant Site Lease Protections

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

- a certified copy of the current residential **MH Site Lease**



form;

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

The Servicer must:

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



raised MH Site Lease rents after required notice);

- retain the review of the Borrower's certification and audit results in the Servicing File; and
- notify Multifamily Loss Mitigation if the Borrower fails to certify compliance, or the MH Site Lease audit discloses potential noncompliance.

Section 421 Single Asset Entity Conversion

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

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

Section 422 Loan Document Amendments

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

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

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

- a subordinate lien, including any Mortgage Loan modification for a Supplemental Mortgage Loan with a confirmed Commitment;
- cross-collateralizing and/or cross-defaulting a Pre-Existing Mortgage Loan with a Supplemental Mortgage Loan with a confirmed Commitment; and



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

Section 423 Maturing Mortgage Loans

423.01 Written Policy

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

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

423.02 Refinance Eligibility

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

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

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



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

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

423.03 Borrower Communications

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

- 18 months before the Mortgage Loan Maturity Date, send the first maturity notification letter notifying the Borrower of the upcoming Maturity Date (18 Month Notice to Borrower – Choice Refinance Loans (Form 4217)).
- 12 months before the Mortgage Loan Maturity Date, send the applicable second maturity notification letter (12 Month Notice to Borrower Marketing Oriented – Choice Refinance Loans (Form 4218) or 12 Month Notice to Borrower – In Place Loans (Form 4219)):
 - notifying the Borrower of the upcoming Maturity Date;
 - providing Servicer contact information; and
 - requesting a detailed payoff plan.
- 6 months before the Mortgage Loan Maturity Date, send the 6 Month Notice to Borrower – In Place Loans (Form 4220):
 - notifying the Borrower of the upcoming Maturity Date;
 - requesting proof of a payoff plan (e.g., a commitment letter from another lender or sale contract); and
 - advising the Borrower that the Mortgage Loan will be in default if not paid off or refinanced.

Within 6 months of the Maturity Date, the Servicer must aggressively pursue a maturity solution for any Mortgage Loan that “Does Not Meet Criteria” until the Borrower provides written proof of a payoff plan, which may include a certified escrow letter, contact



information for the new lender with appropriate follow-up by the [Servicer](#), or other reasonable evidence.

423.04 Fannie Mae Communications

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

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

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

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



GLOSSARY

■ Housing Choice Voucher

Any rental assistance payment or voucher to an eligible tenant under Section 8 of the United States Housing Act of 1938, 42 U.S.C. § 1437f, as amended.

Synonyms

Housing Choice Vouchers

HCV