



Fannie Mae®

Multifamily Selling and Servicing Guide

Effective as of October 25, 2024

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Summary of Changes

HIGHLIGHTS

Effective for Mortgage Loans Committed as of October 25, 2024, due to high interest rates and volatility, Structured Adjustable Rate Mortgage (SARM) Loan criteria were updated.

Primary Changes

Updated:

- Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans to:
 - revise the underwriting criteria for a SARM Loan, including using the Maximum Note Rate instead of the Variable Underwriting Rate to determine the
 - minimum Underwritten DSCR, and
 - maximum SARM Loan amount; and
 - require an Interest Rate Cap reserve equal to at least 110% of the current replacement cap cost if the Interest Rate Cap term expires before the SARM Loan Maturity Date;
- Part III, Chapter 14: Supplemental Mortgage Loans to calculate the loan amount for an adjustable rate Supplemental Mortgage Loan based on the combined debt service amounts using the Maximum Note Rate for the Pre-Existing Mortgage Loan;
- Part III, Chapter 19: Bond Transactions and Credit Enhancement Mortgage Loans to use:
 - the Maximum Note Rate instead of the Variable Underwriting Rate for determining amortization; and
 - a cap cost factor to determine the Maximum Note Rate;
- Part V, Chapter 4: Asset Management: Loan Document Administration for Interest Rate Hedge requirements; and
- Glossary terms to
 - add Maximum Note Rate, and
 - delete Variable Underwriting Rate.



Questions

Please contact Jarrodd Davis at (202) 752-0849, or jarrodd_davis@fanniemae.com, with any questions.



Chapter 12 Structured Adjustable Rate Mortgage (SARM) Loans

Section 1201 Description

Requirements

A SARM Loan is an ARM Loan with an external Interest Rate Cap.

Product Description	
Plan NumbersNumber	04932 - 30-Day Average SOFR
Term	5 to 10 years
Funding Type	MBS or Cash
Index	30-Day Average SOFR
Rate Change Date	Date the interest rate changes based on changes in the selected Index .
Index Look-Back Period	1 Business Day before the Rate Change Date.
Interest Rate Floor	Must not be less equal to or greater than the combined sum of the <ul style="list-style-type: none">• Guaranty Fee, plus• Servicing Fee, plus and• Investor spread.
Lockout Period	1st Loan Year
Prepayment Availability	After the lockout period, may be voluntarily prepaid voluntary prepayments permitted per the selected prepayment option.
Minimum Loan Amount	\$25 million
Interest Rate	Equals the sum of the <ul style="list-style-type: none">• Index, plus• Guaranty Fee, plus• Servicing Fee, plus and• Investor spread.



Interest Rate Adjustment	<ul style="list-style-type: none"> Occurs every month. Except for the Interest Rate Floor, has no limit on number or size of rate changes.
Interest Rate Cap	Required for the entire term of the SARM Loan term .
Interest Accrual Method	Actual/360
Amortization	Amortizes with fixed monthly principal installments based on a calculated actual/360 fixed rate payment.
Conversion to Fixed Rate	Permitted, with no prepayment penalty and minimal re-underwriting, after the lockout period and before the "open period" (typically the last day of the 4th month preceding the end of the per Mortgage Loan Part IV, Chapter 7: Variable Rate Conversions and Renewals, Section 702: ARM Loan and SARM Loan Conversions term).
Investors	<ul style="list-style-type: none"> Third Party MBS Investor, or Multifamily Trading Desk.
Rate Lock	<ul style="list-style-type: none"> Maximum 45-day Commitment. No rate change may occur permitted before Delivery.

Section 1202

Underwriting

Requirements

You must calculate the minimum **Underwritten DSCR** based on an amortizing debt service constant.

Minimum Underwritten DSCR	
Term	Equals the sum of the...



<p>Variable Underwriting Maximum Note Rate</p>	<p>Equals:</p> <ul style="list-style-type: none"> • the 30-Day Average SOFR Index at the time of Rate Lock; plus • Minimum Cap Strike Rate as set by Fannie Mae for the Mortgage Loan, plus • the Mortgage Loan margin equal to the sum of the <ul style="list-style-type: none"> - the Investor's required spread over the applicable Index, plus - Investor spread, - the Guaranty Fee, plus and - the Servicing Fee; plus. • a 3% interest rate spread; plus • a cap cost factor (see Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.03: Including the Cap Cost Factor in the Variable Underwriting Rate of this Chapter for the cap cost factor calculation) if the Borrower does not purchase an Interest Rate Cap for the full term of the SARM Loan at loan origination.
<p>Debt Service Constant</p>	<p>Equals</p> <ul style="list-style-type: none"> • the Variable Underwriting Rate, plus • the applicable amortization factor based on the Variable Underwriting Rate. • Maximum Note Rate, plus • applicable amortization factor based on the Maximum Note Rate.

You must ensure that the maximum SARM Loan amount is the lowest lesser of the amount:

- calculated applying the applicable minimum DSCR per Form 4660 for both the
 - Variable Underwriting Rate for the adjustable interest rate, and
 - Fixed Rate Test described in the Form 4660;
- calculated using the applicable maximum LTV Ratio per Form 4660;
- calculated using the minimum Cap Strike Rate, if set by Fannie Mae; and



- minimum DSCR per Form 4660 for both the
 - Maximum Note Rate for the adjustable interest rate, and
 - Fixed Rate Test described in Form 4660; and
- maximum LTV Ratio per Form 4660; or
- you determined is appropriate.

You must use the Fixed Rate Test interest rate to determine the UPB for the refinance risk analysis per Part II, Chapter 2: Valuation and Income, Section 203: Refinance Risk Analysis.

Guidance

The amortization used to underwrite the SARM Loan is different than the actual SARM Loan amortization schedule, which uses fixed monthly principal installments.

Section 1203

Actual Amortization Calculation

Requirements

You must amortize SARM Loans on a straight-line basis over the total loan term. The amount of amortization due during the Mortgage Loan term is the same amount that would be due, in total, for a comparable fixed rate loan. When you calculate the amortization due, you must consider

- the loan term,
- the amortization schedule,
- any interest only period, and
- the Pricing and Underwriting Tier.

To calculate SARM Loan amortization, you must use fixed rate pricing with an interest rate equal to:

- an indicative MBS investor yield; plus
- the lower of the:
 - the lowest Guaranty Fee and Servicing Fee in the Pricing Memo



for a hypothetical actual/360 fixed rate Mortgage Loan with the same loan term and Pricing and Underwriting Tier as the SARM Loan; or

- the Guaranty Fee and Servicing Fee quoted by the Fannie Mae Deal Team for a fixed rate Mortgage Loan when you request pricing for the SARM Loan.

Operating Procedures

You must..	Process
<p><u>Obtain Fixed Rate Quote</u></p>	<ul style="list-style-type: none"> • <u>Obtain a quote for a hypothetical actual/360 fixed rate Mortgage Loan.</u> • <u>Use the quoted fixed interest rate to calculate the amortization for the SARM Loan.</u>
<p><u>Calculate the Fixed Monthly Principal Installment Over the SARM Loan Term</u></p>	<ul style="list-style-type: none"> • Step 1: <u>Using an actual/360 interest accrual method, calculate the aggregate amortization amount to be collected over the SARM Loan term based on the:</u> <ul style="list-style-type: none"> - <u>SARM Loan principal amount;</u> - <u>lowest interest rate for a hypothetical actual/360 fixed rate Mortgage Loan with the same loan term and Pricing and Underwriting Tier as the SARM Loan, rounded to 3 decimal places; and</u> - <u>required amortization period.</u> • Step 2: <u>Divide the aggregate amortization amount from Step 1 by the number of amortizing monthly installments in the SARM Loan term. The result is the fixed monthly principal installment.</u> <u>For example, the number of monthly installments would be:</u> <ul style="list-style-type: none"> • <u>120, for a 10-year amortizing Mortgage Loan; or</u> • <u>108, for a 10-year Mortgage Loan with 1 year of interest-only.</u>

1. You must obtain quotes for a hypothetical actual/360 fixed rate



Mortgage Loan:

For example, for a SARM Loan with a 10-year loan term...	
Guaranty Fee quoted by Fannie Mae	0.95%
Servicing Fee quoted by Fannie Mae	+ 0.55%
US Treasury and Investor spread (quoted by Fannie Mae or Third Party MBS Investor)	+ 4.00%
Gross Note Rate	= 5.50%

You must use the same 5.50% annual interest rate to calculate the amortization for the 10-year SARM Loan.

2. You must calculate the fixed monthly principal installment required over the term of the SARM Loan following these steps:

Step 1: Using an actual/360 interest accrual method, calculate the aggregate amortization amount that would be collected over the term of the SARM Loan based on the:

- principal amount of the SARM Loan;
- lowest applicable interest rate for a hypothetical actual/360 fixed rate Mortgage Loan with the same loan term, and Pricing and Underwriting Tier as the SARM Loan, rounded to 3 decimal places; and
- required amortization period.

Step 2: Divide the aggregate amortization amount determined in Step 1 by the number of amortizing monthly installments in the SARM Loan term. For example, the number of monthly installments would be:

- 60, for a 5-year amortizing Mortgage Loan;
- 84, for a 7-year amortizing Mortgage Loan;
- 120, for a 10-year amortizing Mortgage Loan; or
- 108, for a 10-year Mortgage Loan with 1 year of interest-only.

The result is the fixed monthly principal installment.



Example: Assume a 10-year Tier 2 fixed rate Mortgage Loan with a

- 5.500% per annum Gross Note Rate,
- 360-month amortization period, and
- \$25 million loan amount.

Calculate the fixed monthly principal installment as follows:

Step 1: Calculate the aggregate principal amortization amount that would be collected over the term of the Mortgage Loan if it had a fixed rate.

Estimate the month and year in which the first full monthly loan payment would be made, based on an actual/360 amortization schedule. The total amount of amortization depends on both

- the number of days (i.e., 28, 29, 30, or 31) in the month prior to each loan payment date, and
- when the next leap year occurs.

Assuming

- a SARM Loan amount of \$25 million,
- a 30-year amortization term,
- a debt service constant calculated using the Gross Note Rate of 5.500% (6.8134680% debt service constant),
- an actual/360 interest accrual method,
- an issue date of December 1, 2018, and
- a first loan payment date of January 1, 2019,

the aggregate amount allocated to principal over 120 payments is \$4,114,494.17.

Step 2: Calculate the fixed monthly principal installment by dividing the aggregate amortization amount by the total number of amortizing payments during the SARM Loan term.



Calculate the fixed monthly principal installment...	
Aggregate amortization	\$4,114,494.17
Divided by total payments	120
Equals fixed monthly principal	\$34,287.45

➔ [Guidance](#)

The following is an example for calculating the fixed monthly principal installment for a [Tier 2 SARM Loan](#) with a

- [10-year term](#),
- [30-year amortization period](#),
- [actual/360 interest accrual method](#), and
- [\\$25 million Mortgage Loan amount](#).

Example: Hypothetical Actual/360 Fixed Rate Quote	
Guaranty Fee quoted by Fannie Mae	0.95%
Servicing Fee quoted by Fannie Mae	+ 0.55%
U.S. Treasury and Investor spread (quoted by Fannie Mae or Third Party MBS Investor)	+ 4.00%
Gross Note Rate	= 5.50%

Step 1: Calculate the aggregate principal amortization amount collected over the [Mortgage Loan](#) term if it had a fixed rate.



Determine the..	Assuming...	Result
<ul style="list-style-type: none"> • <u>Month and year when the first full monthly loan payment would be made, based on an actual/360 amortization schedule.</u> • <u>Total amortization amount depends on:</u> <ul style="list-style-type: none"> - <u>the number of days (i.e., 28, 29, 30, or 31) in the month before each loan payment date; and</u> - <u>when the next leap year occurs.</u> 	<ul style="list-style-type: none"> • <u>a debt service constant calculated using the hypothetical fixed Gross Note Rate of 5.500% (6.8134680% debt service constant);</u> • <u>an issue date of December 1, 2018; and</u> • <u>a first loan payment date of January 1, 2019.</u> 	<u>The aggregate principal amortization amount over 120 payments is \$4,114,494.17.</u>

Step 2: Calculate the fixed monthly principal installment by dividing the aggregate amortization amount by the total number of amortizing payments during the SARM Loan term.

Calculate the Fixed Monthly Principal Installment	
<u>Aggregate amortization</u>	<u>\$4,114,494.17</u>
<u>Divided by total payments</u>	<u>120</u>
<u>Equals fixed monthly principal</u>	<u>\$34,287.45</u>

Section 1204 Prepayment Terms

1204.01 Generally

Requirements

The following table describes various situations and the applicable prepayment provisions; see Part V, Chapter 2: Reporting and Remitting, Section 213: Prepayment Premium Sharing for Prepayment Premium calculations and sharing between you and Fannie Mae.



Situation	Prepayment Provisions
Borrower attempts to make a voluntary prepayment during the lockout period.	Borrower may not <u>cannot</u> make a voluntary prepayment during the lockout period.
SARM Loan is accelerated during the prepayment lockout period.	Borrower owes a 5% Prepayment Premium.
Borrower makes a prepayment sometime after the lockout period and before the "open period" (typically 3 months before Maturity Date) for any reason other than a casualty or condemnation.	Borrower owes a Prepayment Premium.
SARM Loan converts to a fixed rate Mortgage Loan.	Borrower does not owe a Prepayment Premium.
Borrower makes a prepayment during the "open period" (typically 3 months before the Maturity Date).	Borrower does not owe a Prepayment Premium.
Borrower makes a prepayment due to casualty or condemnation.	Borrower does not owe a Prepayment Premium.

1204.02 Prepayment Option 1 – Declining Prepayment Premium Schedule

Requirements

For a voluntary prepayment after the ~~stated~~ lockout period using Prepayment Option 1, you must use Schedule 4 of the Multifamily Loan and Security Agreement - Prepayment Premium Schedule (Graduated Prepayment Premium – ARM, SARM) (Form 6104.10) with the applicable Prepayment Premium percentage listed in this table.

Loan Year	5-Year Term	7-Year Term	10-Year Term
1 (Locked Out) ¹	N/A	N/A	N/A
2	4%	4%	4%
3	3%	3%	3%



4	2%	2%	2%
5	1%	1%	1%
6	N/A	1%	1%
7	N/A	1%	1%
8	N/A	N/A	1%
9	N/A	N/A	1%
10	N/A	N/A	1%
<p>1 During the lockout period, the Borrower may not cannot voluntarily prepay the SARM Loan. If the SARM Loan is accelerated during the lockout period, the Borrower owes a 5% Prepayment Premium.</p>			

1204.03 Prepayment Option 2 - 1% Prepayment Premium Schedule

Requirements

For a voluntary prepayment after the ~~stated~~ lockout period using Prepayment Option 2, you must use Schedule 4 to Multifamily Loan and Security Agreement (Prepayment Premium Schedule-1% Prepayment Premium – ARM, SARM) (Form 6104.11) to document the required 1% Prepayment Premium.

Loan Year	5-Year Term	7-Year Term	10-Year Term
1 (Locked Out) ¹	N/A	N/A	N/A
2	1%	1%	1%
3	1%	1%	1%
4	1%	1%	1%
5	1%	1%	1%
6	N/A	1%	1%
7	N/A	1%	1%
8	N/A	N/A	1%
9	N/A	N/A	1%
10	N/A	N/A	1%



1 During the lockout period, the Borrower ~~may not~~ cannot voluntarily prepay the SARM Loan. If the SARM Loan is accelerated during the lockout period, the Borrower owes a 5% Prepayment Premium.

Section 1205 Interest Rate Caps

Requirements

Description	
Interest Rate Cap	Borrower must purchase a third-party Interest Rate Cap.
Interest Rate Cap Provider	Borrower must only obtain bids from providers approved by Fannie Mae as listed on https://multifamily.fanniemae.com .
Interest Rate Cap Documentation	Must be on forms that are acceptable to Fannie Mae.
Minimum Interest Rate Cap Term	5 years. The Borrower must keep an Interest Rate Cap Agreement in place continually until the earlier of the <ul style="list-style-type: none">• effective date of any permitted conversion to a fixed rate Mortgage Loan, or• Maturity Date of the SARM Loan.
Replacement Cap	You must ensure that the Borrower purchases a replacement cap if the Interest Rate Cap term expires before the conversion or Maturity Date of the SARM Loan.
Cap Cost Factor	Equals the cost of a replacement cap divided by the initial cap term.
Interest Rate Cap Reserves	Borrower must fund a cash reserve sufficient to purchase a replacement cap if the Interest Rate Cap term expires before the Maturity Date of the SARM Loan.



Description	
Cap-Contract Process and Documentation	You must deliver all cap-related documentation to Fannie Mae, including the <ul style="list-style-type: none">• Interest Rate Cap Agreement, and• applicable Interest Rate Cap Reserve and Security Agreement (Form 6442 series). Fannie Mae will engage outside counsel at your expense to review all cap-related documentation.
Initial Interest Rate Cap Notional Amount	Notional amount of the initial Interest Rate Cap throughout its term must equal the original principal amount of the SARM Loan.

➔ Guidance

You may require the Borrower to:

- pay Fannie Mae's costs, including legal fees; and
- fund a reserve for the payment of these expenses.

1205.01 Replacement Interest Rate Cap Generally

☑ Requirements

If the initial Interest Rate Cap expires before the Maturity Date of the SARM Loan, you must ensure that:

- The Borrower purchases a replacement Interest Rate Cap to cover the remaining term.
- The notional amount of any replacement cap equals the outstanding principal balance of the SARM Loan when the replacement cap becomes effective, and continues throughout the term of the replacement cap.
- The term of the replacement cap equals the remaining term of the SARM Loan, or a shorter term if previously approved and documented in the Loan Documents.
- The Cap Strike Rate of the replacement cap is equal to or less than the Cap Strike Rate at Mortgage Loan origination (see Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans,



Section 1205.02: Determining the Cap Strike Rate).

Description	
<u>Interest Rate Cap</u>	<u>Borrower must:</u> <ul style="list-style-type: none"> • <u>purchase a third-party Interest Rate Cap; and</u> • <u>keep an Interest Rate Cap Agreement in place continually until the earlier of the</u> <ul style="list-style-type: none"> - <u>effective date of any permitted conversion to a fixed rate Mortgage Loan, or</u> - <u>SARM Loan Maturity Date.</u>
<u>Interest Rate Cap Provider</u>	<u>Borrower must only obtain bids from Fannie Mae-approved providers listed on https://multifamily.fanniemae.com.</u>
<u>Interest Rate Cap Documentation</u>	<u>Must be on forms acceptable to Fannie Mae.</u>
<u>Minimum Interest Rate Cap Term</u>	<u>5 years.</u>
<u>Replacement Interest Rate Cap</u>	<u>You must ensure the Borrower purchases a replacement Interest Rate Cap if the Interest Rate Cap term expires before the SARM Loan conversion or Maturity Date.</u>
<u>Interest Rate Cap Reserves</u>	<u>Borrower must fund a cash reserve equal to at least 110% of the current replacement cap cost if the Interest Rate Cap term expires before the SARM Loan Maturity Date.</u>
<u>Interest Rate Cap Contract Process and Documentation</u>	<u>You must deliver all Interest Rate Cap-related documentation, including the</u> <ul style="list-style-type: none"> • <u>Interest Rate Cap Agreement, and</u> • <u>Interest Rate Cap Reserve and Security Agreement (Form 6442 series).</u> <u>Fannie Mae will engage outside counsel at your expense to review all cap-related documentation.</u>
<u>Initial Interest Rate Cap Notional Amount</u>	<u>Must equal the original principal amount of the SARM Loan throughout the Interest Rate Cap's term.</u>



→ Guidance

Guidance

The You may require the Borrower may purchase an Interest Rate Cap in advance if to:

- the initial cap goes into effect on the Mortgage Loan Origination Date, and
- the replacement cap goes into effect on the Maturity Date of the initial cap.
- pay Fannie Mae's costs, including legal fees; and
- fund a reserve to pay these expenses.

1205.02 Determining the Cap Strike Rate

Requirements

You must determine the maximum Cap Strike Rate. The sum of the following must not be greater than the rate (calculated using an underwritten debt service constant that includes amortization) that produces the minimum required Underwritten DSCR for the Pricing and Underwriting Tier of the SARM Loan:

- Cap Strike Rate; plus
- Guaranty Fee; plus
- Servicing Fee; plus
- Investor spread; plus
- the higher of a cap cost factor (see Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.03: Including the Cap Cost Factor in the Variable Underwriting Rate) or actual Interest Rate Cap escrow deposits, if an interest rate cap for the full term of the Mortgage Loan is not purchased at closing.
- determine the maximum Cap Strike Rate permitted for the initial Interest Rate Cap; and
- ensure the sum of the following is less than or equal to the rate (calculated using an underwritten debt service constant that includes amortization) that produces the minimum required Underwritten DSCR for the SARM Loan's Pricing and Underwriting Tier:



- the [Cap Strike Rate](#) for the initial [Interest Rate Cap](#); plus
- [Guaranty Fee](#); plus
- [Servicing Fee](#); plus
- [Investor spread](#).

You must ensure that the [Cap Strike Rate](#) at which the [Borrower](#) purchases any replacement cap is not greater than the [Cap Strike Rate](#) at which the initial cap was purchased.

➔ Guidance

If you should enter “0” in the [Borrower C&D](#) purchases an “[Cap Cost Factor](#)” field if the replacement [Interest Rate Cap](#) with a [escrow](#) was fully funded on the [Cap Strike Rate Mortgage Loan Origination Date](#) less than the maximum rate, then any replacement cap may still be purchased at a [Cap Strike Rate](#) that is less than or equal to the maximum rate.

You may calculate the initial [Cap Strike Rate](#) based on an interest-only underwritten debt service constant if the approved interest-only term is greater than or equal to the initial [Interest Rate Cap](#) term.

1205.03 Including the Cap Cost Factor in the Variable Underwriting Rate

☑ Requirements

When determining the [Variable Underwriting Rate](#) used to calculate the minimum required [Underwritten DSCR](#), you must include a cap cost factor based on the term of the [SARM Loan](#) and the term of the initial [Interest Rate Cap](#).

You do not need to include a cap cost factor if the term of the initial [Interest Rate Cap](#) equals the term of the [SARM Loan](#).

You must ensure that the cap cost factor equals

- the estimated cost of the replacement cap (when the term of the initial cap expires), divided by
- the term of the initial cap.



Operating Procedures

For example, to calculate the cap cost factor assuming a 5-year Interest Rate Cap and 7-year SARM Loan term:

- You must include an annual cap cost factor in the Variable Underwriting Rate.
- If the SARM Loan term is 7 years and an initial cap is purchased for a 5-year term, the cap cost factor equals the estimated cost of a replacement cap divided by 5 (the number of years of the initial interest rate term).
- The replacement cap has a 2-year term and a Cap Strike Rate equal to that of the initial cap.
- If a 2-year Interest Rate Cap at the initial Cap Strike Rate costs 20 basis points, you must divide 20 by 5, then add the result (4 basis points) to the Variable Underwriting Rate.

1205.04 Establishing Interest Rate Cap Reserves

1205.03

Requirements

You must ensure that the Borrower has funds a cash reserve to purchase a replacement Interest Rate Cap if the term of the initial Interest Rate Cap term is less than the term of the SARM Loan term.

If the initial Interest Rate Cap Agreement Interest Rate Cap has a term is less than the SARM Loan term of 5 years, the Borrower must fund the cash reserve with each monthly Mortgage Loan payment during the term.

If the initial cap has a term of more than 5 years, the Borrower's monthly reserve payments for a replacement cap must start no later than 5 years before the existing cap expires.

You must calculate the monthly reserve payments for the first 6-month period using the estimated cost of the replacement Interest Rate Cap.

- fully fund the cash reserve on the Mortgage Loan Origination Date; and
- escrow at least 110% of the current replacement cap cost.



→ Guidance

Assuming that a 5-year Interest Rate Cap is initially purchased for a SARM Loan with a 10-year term, if

- the initial cap is purchased with a 6.50% Cap Strike Rate, and
- the cost of a replacement 5-year cap with a 6.50% Cap Strike Rate is \$250,000,
- then the monthly reserve for the first 6-month period would be \$4,166.67 ($\$250,000 \text{ cost} \div 60 \text{ months}$).

1205.05 Interest Rate Cap Contract Documentation and Delivery

1205.04

Operating Procedures

1. Cap Provider Payment

The Interest Rate Cap provider must make a payment directly to you if, on the 1st day of the month corresponding with the monthly loan payment date, the 30-Day Average SOFR Index exceeds the Cap Strike Rate for a monthly settlement.

Only disburse a provider payment to the Borrower if

- there is no Mortgage Loan default, and
- you have received all payments due under the Note for that month.

2. Timing

The Borrower must accept a bid for the initial Interest Rate Cap in writing from a Fannie Mae approved provider before you Deliver the SARM Loan.

You must give Fannie Mae copies of all cap-related documentation when you deliver the SARM Loan.

3. Purchase Price

The Borrower must pay the entire purchase price for an Interest Rate Cap to the provider when the Interest Rate Cap Agreement is issued.



4. Pledge to Fannie Mae

The Borrower must execute the applicable Interest Rate Cap Reserve and Security Agreement (Form 6442 series) to pledge its interest in the Interest Rate Cap and any reserve to Fannie Mae, as additional collateral for the SARM Loan.

Interest Rate Cap Contract Documentation and Delivery	
For	Actions
<u>Cap Provider Payment</u>	<u>The Interest Rate Cap provider must:</u> <ul style="list-style-type: none">• <u>pay you directly if, on the 1st day of the month corresponding with the monthly loan payment date, the 30-Day Average SOFR Index exceeds the Cap Strike Rate for a monthly settlement; and</u>• <u>only disburse a provider payment to the Borrower if</u><ul style="list-style-type: none">- <u>there is no Mortgage Loan default, and</u>- <u>you have received all payments due per the Note for that month.</u>
<u>Timing</u>	<ul style="list-style-type: none">• <u>Borrower must accept a bid for the initial Interest Rate Cap in writing from a Fannie Mae-approved provider before you Deliver the SARM Loan.</u>• <u>You must submit copies of all cap-related documentation when you Deliver the SARM Loan.</u>
<u>Purchase Price</u>	<u>Borrower must pay the entire purchase price for an Interest Rate Cap to the provider when the Interest Rate Cap Agreement is issued.</u>
<u>Pledge to Fannie Mae</u>	<u>Borrower must execute Form 6442 series to pledge its interest in the Interest Rate Cap and any reserve to Fannie Mae as additional SARM Loan collateral.</u>



Chapter 14 Supplemental Mortgage Loans

Section 1401 Description

Requirements

A Fannie Mae Supplemental Mortgage Loan is available for Properties with a Pre-Existing Mortgage Loan.

A non-Fannie Mae Subordinate Loan is only permitted for MAH Properties per Part III, Chapter 7: Multifamily Affordable Housing Properties.

For Moderate Rehabilitation Supplemental Mortgage Loans, see Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans.

Section 1402 Supplemental Mortgage Loans

1402.01 Description

Requirements

Product Description	
Lender Eligibility	You must be the Servicer of all Pre-Existing Mortgage Loans on the Property.
Ineligible Products	Hybrid ARM Loan
Loan History	Pre-Existing Mortgage Loan is not on the current Fannie Mae Watchlist.
Origination Date	At least 12 months must elapse between the origination dates of the most recent Pre-Existing Mortgage Loan and the Supplemental Mortgage Loan, unless the Loan Documents expressly permit a shorter time.



Product Description	
Maximum Number of Supplemental Mortgage Loans	<p>Only 1 Supplemental Mortgage Loan is permitted during the Senior Mortgage Loan term unless:</p> <ul style="list-style-type: none">• it is a Moderate Rehabilitation Supplemental Mortgage Loan;• it is a Green Rewards Supplemental Mortgage Loan where 100% of the proceeds are used to implement selected Efficiency Measures; or• the Property is sold to an unrelated new Borrower who assumes the Pre-Existing Mortgage Loan, and the closing and funding of the new Supplemental Mortgage Loan occurs concurrently with the Property sale and Pre-Existing Mortgage Loan assumption.
Minimum Supplemental Loan Term	<p>5 years provided that:</p> <ul style="list-style-type: none">• for Pre-Existing Mortgage Loans with a balloon payment at the Maturity Date, the Maturity Date of the Supplemental Mortgage Loan must not be before that of any Pre-Existing Mortgage Loan; and• for fully amortizing Pre-Existing Mortgage Loans, the Maturity Date of the Supplemental Mortgage Loan must not be before the latest Prepayment Premium Period End Date of any Pre-Existing Mortgage Loan.



Product Description	
Mortgage Loan Amount	Except per Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402.03: Loan Amount, you must determine the Underwritten NCF, Underwritten DSCR, and LTV per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products in Part III.
Replacement Reserve, Tax, and Insurance Escrows	You must: <ul style="list-style-type: none">• Calculate the Replacement Reserve, tax, and insurance escrows on the resulting Tier of the combined Pre-Existing Mortgage Loan and Supplemental Mortgage Loan.• Ensure escrow funding established with the Pre-Existing Mortgage Loans does not cease.• Adjust the funding when necessary to meet current Tier 2 requirements for any Tier Dropping Supplemental Mortgage Loan if the combined Tier is Tier 2.
Cross-Default	Must be cross-defaulted with all Pre-Existing Mortgage Loans.
Interest Rate Type	<ul style="list-style-type: none">• Fixed rate, if the Pre-Existing Mortgage Loan has a fixed rate.• Fixed or variable rate, if the Pre-Existing Mortgage Loan has a variable rate.



Product Description	
UCC Financing Statements	<p>No new UCC Financing Statement is required for the Supplemental Mortgage Loan.</p> <p>If the Lien of the Senior Mortgage Loan is released before the Supplemental Mortgage Loan is repaid in full, you must file a UCC Financing Statement for the Supplemental Mortgage Loan in the appropriate public records office.</p>

Guidance

You may increase Replacement Reserve, tax, and insurance escrow funding for a Supplemental Mortgage Loan if the Tier is unchanged from the Pre-Existing Mortgage Loans.

1402.02 Coterminous and Non-Coterminous

Guidance

A Supplemental Mortgage Loan may have a Maturity Date that is either coterminous or non-coterminous with the Maturity Date of the Senior Mortgage Loan.

The Prepayment Premium Period End Date of a Supplemental Mortgage Loan need not coincide with the Prepayment Premium Period End Date of any Pre-Existing Mortgage Loan.

Requirements

You must resubordinate any existing, non-coterminous Supplemental Mortgage Loan when refinancing a maturing Senior Mortgage Loan with Fannie Mae.

1402.03 Loan Amount

1402.03A Maximum Loan Amount

Requirements

The maximum Supplemental Mortgage Loan amount equals the lowest



Mortgage Loan amount calculated per Sections 1402.03.B - 1402.03.D of this Chapter.

1402.03B Calculating the Debt Service

Requirements

You must calculate the Supplemental Mortgage Loan amount based on the combined debt service amounts of all Pre-Existing Mortgage Loans plus the Supplemental Mortgage Loan, as outlined in the following tables.

Pre-Existing Mortgage Loans	
If the Interest Rate Type is...	Use an amortizing Debt Service Amount based on the...
Fixed Rate	Gross Note Rate.
Adjustable Rate	<ul style="list-style-type: none">• origination loan amount;• <u>Delivered Mortgage Loan amount;</u>• amortization term; and• <u>Maximum Variable Underwriting Rate Note Rate</u> per the applicable Part III Chapters.

Supplemental Mortgage Loan	
If the Interest Rate Type is...	Use an amortizing Debt Service Amount based on the greater of the Gross Note Rate or the...
Fixed Rate	applicable Underwriting Interest Rate Floor per Form 4660.
Adjustable Rate	<u>Maximum Variable Underwriting Rate Note Rate</u> per the applicable Part III Chapters.

1402.03C Calculating the DSCR and LTV

Requirements

To determine the Supplemental Mortgage Loan amount, you must apply the Form 4660 DSCR and LTV requirements as follows:



Supplemental Mortgage Loan	
DSCR	The combined debt service of <ul style="list-style-type: none"> • all Pre-Existing Mortgage Loans, plus • the Supplemental Mortgage Loan.
LTV	The combined <ul style="list-style-type: none"> • aggregate UPB of all Pre-Existing Mortgage Loans, plus • the principal amount of the Supplemental Mortgage Loan.

1402.03D New Loan Test

Requirements

For a Tier 2 Supplemental Mortgage Loan, if the Senior Mortgage Loan Maturity Date is 5 years or less after the Supplemental Mortgage Loan Origination Date, you must perform a New Loan Test to confirm the combined UPB of all Pre-Existing Mortgage Loans plus the Supplemental Mortgage Loan does not exceed the maximum loan amount for a new fixed rate, first Lien, cash-out Mortgage Loan.

Term	New Loan Test Requirement
Underwriting Tier	Tier 2
Minimum DSCR	Per Form 4660
Maximum LTV	Per Form 4660
Maturity	10 years
Market Classification	Based on Property's Location



Term	New Loan Test Requirement
Interest Rate	Higher of: <ul style="list-style-type: none">• an interest rate using the highest Total Credit Fees Range in the current "Indicative Pricing" table in DUS Gateway minus any applicable "Optional Reduction"; or• the Underwriting Interest Rate Floor per Form 4660, if applicable.

1402.04 Tier Dropping

1402.04A Designating

Requirements

If you designated a [Senior Mortgage Loan](#) as eligible for a [Tier Dropping Supplemental Mortgage Loan](#), then you must also designate all [Supplemental Mortgage Loans](#) secured by that [Property](#) as eligible for [Tier Dropping Supplemental Mortgage Loans](#).

Operating Procedures

- For an [MBS Mortgage Loan](#) originated before September 1, 2007, you must have designated it as eligible for a [Tier Dropping Supplemental Mortgage Loan](#) at the time of [Commitment](#) of each [Pre-Existing Mortgage Loan](#).
- For [Pools](#) issued on or after August 1, 2001, the designation for [Tier Dropping Supplemental Mortgage Loans](#) eligibility must be disclosed on [Annex A](#) to the [Prospectus](#).

1402.04B Eligibility

Requirements



Tier Dropping Eligibility	
If the Pre-Existing Mortgage Loan is...	It is eligible for a Tier Dropping Supplemental Mortgage Loan if...
Cash	<p>the combined Pre-Existing Mortgage Loans and Supplemental Mortgage Loan meet the Form 4660</p> <ul style="list-style-type: none">• minimum applicable DSCR for Tier 2 Mortgage Loans, and• maximum applicable LTV for Tier 2 Mortgage Loans.
MBS	<ul style="list-style-type: none">• it was designated as eligible for a Tier Dropping Supplemental Mortgage Loan; and• the combined Pre-Existing Mortgage Loans and Supplemental Mortgage Loan meet the Form 4660<ul style="list-style-type: none">- minimum applicable DSCR for Tier 2 Mortgage Loans, and- maximum applicable LTV for Tier 2 Mortgage Loans.

1402.04C Ineligible Mortgage Loans

Requirements

ARM Loans cannot be Tier Dropping Supplemental Mortgage Loans.

1402.05 Streamlined Underwriting

1402.05A Property

Requirements

Streamlined Underwriting	
Appraisal	You must obtain a new Appraisal.



Property Management	If there has been or will be a Property management change, you must comply with Part II, Chapter 1: Attributes and Characteristics, Section 112.01: Property Management.
Property Condition Assessment Report	You must obtain a PCA Report if the Supplemental Mortgage Loan Property inspection reveals any adverse change in property condition or life safety issues. A PCA Report is not required if: <ul style="list-style-type: none">• there has been no adverse change;• the existing PCA Report is less than 3 years old;• all immediate repairs Immediate Repairs identified in the existing PCA Report have been satisfactorily completed; and• the most recent Property inspection indicates an overall rating of 1 or 2.
Replacement Reserves	<ul style="list-style-type: none">• If the PCA Report indicates a need to modify the existing or fund an initial Replacement Reserve, you must ensure the funding by amending the Replacement Reserve Schedule.• Even if there is no funding or only partial funding for a Pre-Existing Mortgage Loan, you must fully fund the Replacement Reserve if the combined DSCR and LTV for all Pre-Existing Mortgage Loans and the Supplemental Mortgage Loan is Tier 2.



Environmental Site Assessment (ESA)	You must obtain a new or updated ESA and comply with Part II, Chapter 5: Property and Liability Insurance, Section 502: Environmental Matters unless all the following are met: <ul style="list-style-type: none">• an ESA was performed for a Pre-Existing Mortgage Loan;• an Environmental Professional performs an environmental database review and identifies no<ul style="list-style-type: none">- potential environmental concerns (as defined in ASTM E1528 - Standard Practice for Limited Environmental Due Diligence: Transaction Screen), or- adverse conditions requiring further due diligence;• the Borrower executes an Environmental Indemnity Agreement (Form 6085);• you confirm that any disclosed Prohibited Activities or Conditions per the Loan Documents are adequately addressed through an O&M Plan being implemented at the Property; and• the Borrower certifies, and you confirm, that all appropriate O&M Plans are in place and being fully and properly implemented.
Property and Liability Insurance	You must base the required amounts and coverages of all property and liability insurance on the combined UPB of the Supplemental Mortgage Loan and all Pre-Existing Mortgage Loans .
Title Insurance	You must ensure the Borrower obtains a new title insurance policy.

1402.05B Borrower, Guarantor, Key Principals, and Principals

Requirements

You must:

- identify all [Key Principals](#) and [Principals](#) of



the Borrower and Guarantor;

- confirm the original underwriting of the Borrower, Guarantor, and each Key Principal and Principal per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals;
- obtain updates to the:
 - financial statements for all parties relevant to the transaction;
 - Multifamily Underwriting Certificates (Form 6460 series) for the Borrower, Guarantor, and each Key Principal;
 - organizational documents of the Borrower, Guarantor, and each Key Principal; and
 - good standing certificate from the jurisdiction where an entity Borrower and Guarantor are organized;
- confirm that the organizational structure of the Borrower, Guarantor, and each Key Principal complies with Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals; and
- confirm that no unauthorized change has been made to the organizational structure or organizational documents of the Borrower or the Guarantor.

Operating Procedures

If there was...	You must...
<ul style="list-style-type: none">• an unauthorized Transfer/Assumption; or• any change in the organizational structure of the Borrower, Guarantor, or any Key Principal or Principal	notify Fannie Mae per: <ul style="list-style-type: none">• Part VI, Chapter 3: Non-Performing Primary Risk Mortgage Loans, Section 305: Notice of Default; or• Part VI, Chapter 5: Non-Performing Secondary Risk Mortgage Loans, Section 505: Notice of Default.



Chapter 19 Bond Transactions and Credit Enhancement Mortgage Loans

Section 1901 Description

Guidance

A [Bond](#) credit enhancement may involve

- a [Standby Credit Enhancement Instrument](#),
- a [Direct Pay Credit Enhancement Instrument](#),
- a secondary market [Credit Enhancement Instrument](#), or
- an [MBS](#).

In addition to credit enhancing the [Bonds](#), both the [Standby Credit Enhancement Instrument](#) and the [Direct Pay Credit Enhancement Instrument](#) may provide

- liquidity support, and
- if the [Bonds](#) are issued under an [Open Indenture](#), credit enhancement of the [Mortgage Loan](#).

Requirements

You must coordinate all aspects of a [Credit Enhancement Mortgage Loan](#) transaction with your counsel and Fannie Mae's counsel.

For [Bonds](#) that are privately placed or purchased directly, you must consult with the [Fannie Mae Deal Team](#) and Fannie Mae's counsel for pricing and disclosure requirements.

For a [Forward Commitment Credit Enhancement Mortgage Loan](#), you must also comply with [Part III, Chapter 20: Forward Commitments](#).



Terms	Credit Enhancement Instrument	MBS for Bonds
Fannie Mae Guarantees	<ul style="list-style-type: none"> • Bond P&I for Closed Indenture Bonds. • Mortgage Loan P&I for Open Indenture Bonds. • Up to 25 basis points of Bond Issuer fees. 	Bond P&I.
Basis	Either <ul style="list-style-type: none"> • Standby, or • Direct Pay. 	Direct Pay.
Interest Rate Type	Either <ul style="list-style-type: none"> • fixed rate, or • variable rate Bonds. 	Either <ul style="list-style-type: none"> • fixed rate, or • variable rate Bonds with a SARM Loan.
Documents	<ul style="list-style-type: none"> • Any new Bond issued must be documented on Fannie Mae Bond and Loan Document forms. • For substitute credit enhancements where the existing Bonds remain outstanding, the existing Bond and Loan Documents must be: <ul style="list-style-type: none"> - amended and restated on Fannie Mae form documents; or - amended only as necessary per Fannie Mae. 	
Credit Enhancement Timing	Credit Enhancement Instrument is delivered <ul style="list-style-type: none"> • on the Bond issuance date for a new Bond, or • when Fannie Mae provides new or substitute credit enhancement. 	Mortgage Loan is originated with Bond issuance and the MBS, when issued, is deposited with the Bond Trustee.



Section 1902 Outside Counsel

1902.01 Engagement

Requirements

You must request Fannie Mae's outside counsel assignment before any transaction structuring discussions begin.

Operating Procedures

To request Fannie Mae's outside counsel assignment, submit a Counsel Designation Request ([Form 4625.B](#)) to counsel_designations@fanniemae.com.

Fannie Mae selects its own outside counsel but may consider your request for a specific counsel.

1902.02 Fees

Requirements

You must pay Fannie Mae's outside counsel fees and costs regardless of whether the transaction closes.

Guidance

You may charge the [Borrower](#) for Fannie Mae's outside counsel fees and costs.

For a [Credit Enhancement Instrument](#), you may choose to have Fannie Mae's outside counsel

- prepare the [Loan Documents](#), and
- review title insurance and survey matters.

If Fannie Mae's outside counsel performs these services:

- the counsel will only represent Fannie Mae, not you; and
- you will be responsible for the additional fees.

Section 1903 Third Parties

1903.01 Generally



Requirements

You must coordinate with all third parties and their counsels to ensure the transaction complies with their requirements.

Fannie Mae reserves the right, in its sole discretion, to reject any third party's involvement, including:

- Bond Issuer;
- Bond Trustee;
- Bond underwriter;
- any Remarketing Agent;
- any Bond liquidity provider; and
- any Interest Rate Cap provider.

1903.02 Remarketing Agent

Requirements

You must ensure any Remarketing Agent:

- currently remarkets at least \$250 million of weekly variable rate demand Bonds;
- has continuously remarketed weekly variable rate demand Bonds for the past 3 years;
- has a minimum net worth of \$5 million; and
- has a minimum broker line of credit sufficient for warehousing \$100 million of rated Bonds at any time.

Operating Procedures

Fannie Mae's counsel must confirm that the Remarketing Agreement terms comply with Fannie Mae requirements.

Section 1904 Legal Documents

1904.01 Generally

Operating Procedures

Fannie Mae's counsel will advise your counsel regarding the



appropriate Fannie Mae Loan Documents for the Bond structure.

Immediately after Bond closing, you must:

- obtain a final Bond transcript from Bond counsel;
- submit it via CD to Multifamily Certification and Custody; and
- maintain a copy in your Servicing File.

1904.02 Credit Enhancement Instrument

➔ Guidance

Fannie Mae's Credit Enhancement Instrument Loan Documents presume the Bond Issuer will:

- be the initial lender and secured party under the Security Instrument; and
- immediately assign the Multifamily Bond Note and Security Instrument to Fannie Mae and the Bond Trustee, as co-assignees.

☑ Requirements

You must ensure that Fannie Mae (not you or the Bond Issuer) is named as the counterparty or beneficiary in the Credit Enhancement Mortgage Loan agreements and collateral assignments.

✻ Operating Procedures

Fannie Mae and its counsel will:

- prepare the
 - Credit Enhancement Commitment Letter,
 - credit enhancement documents,
 - multifamily Note; and
- review and approve all Bond documents.

You may ask Fannie Mae's counsel to also prepare other Loan Documents, or your counsel may prepare these documents.

1904.03 MBS for Bonds



Operating Procedures

The MBS For Bonds loan structure is identical to a standard Mortgage Loan.

Your counsel must:

- Prepare the standard 6000 series Loan Documents.
- Consult with Fannie Mae's counsel to
 - integrate the standard Loan Document provisions into the Bond transaction structure, and
 - incorporate any Bond related modifications into the Loan Documents.

1904.04 Affordable Regulatory Agreements

Operating Procedures

1. If an Affordable Regulatory Agreement must be recorded before the Security Instrument to ensure the Bond's tax-exempt status, Fannie Mae's counsel will provide an Affordable Regulatory Agreement rider subordinating it to the Security Instrument.
2. You must ensure the Bond Issuer attaches the rider to the Affordable Regulatory Agreement.

Section 1905

Fannie Mae LIHTC Investment in Credit-Enhanced Bonds

Guidance

Per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 710.02: Fannie Mae Credit-Enhanced Tax-Exempt Bond Issuance, Fannie Mae may be a LIHTC investor in the Borrower for a project financed by tax-exempt Bonds that Fannie Mae will also be credit enhancing. To avoid potential adverse tax consequences, if Fannie Mae is a LIHTC investor on a Credit Enhancement Mortgage Loan, Fannie Mae's counsel will prepare the LIHTC agreement among the

- Bond Issuer,
- Borrower, and
- Fannie Mae.



Requirements

You must determine if Fannie Mae will be a LIHTC investor on a Credit Enhancement Mortgage Loan. If so, you must confirm:

- Fannie Mae does not hold a direct equity interest in the Borrower;
- Fannie Mae's indirect equity interest in the Borrower is less than 50%;
- the IRS documentation filed for the Bond issuance shows that none of the Bond proceeds were applied to pay any portion of Fannie Mae's Credit Enhancement Fee;
- the Bond Issuer, Borrower, and Fannie Mae enter into a LIHTC agreement acknowledging Fannie Mae's equity interest; and
- any LIHTC agreement required notices to the Borrower and Bond Issuer were provided.

Section 1906 Credit Enhancing Fixed Rate Bonds

1906.01 Terms

Requirements

Terms	Credit Enhancement Instrument	MBS for Bonds
Interest Rate Reset	<ul style="list-style-type: none">• Used if the Bonds<ul style="list-style-type: none">- have a fixed rate for a specified period before maturity, and- require remarketing on scheduled mandatory tender dates.• Occurs after the fixed rate period per the Bond and Loan Documents.	Not available.



Terms	Credit Enhancement Instrument	MBS for Bonds
Loan Term	Credit Enhancement Mortgage Loan must: <ul style="list-style-type: none"> • for a Property with new 4% LIHTCs, have a term of at least 10 years, with a maximum of 30 years; or • for a Property without new 4% LIHTCs, have a term less than or equal to the Bond term, with a maximum of 30 years. 	
Fannie Mae Fees	Credit Enhancement Fee	Guaranty Fee
Trustee Fee and Bond Issuer Fee	Underwritten as <ul style="list-style-type: none"> • an operating expense, or • part of the Gross Note Rate. 	Underwritten as an operating expense.
Gross Note Rate	Sum of the <ul style="list-style-type: none"> • Bond interest rate, • Facility Fee (calculated per Part III, Chapter 19: Bond Transactions and Credit Enhancement Mortgage Loans, Section 1908: Facility Fee) divided by the Bond UPB, and • trustee fee and Bond Issuer fee, if they are not underwritten as an operating expense. 	Sum of the <ul style="list-style-type: none"> • Bond interest rate, • Guaranty Fee, and • Servicing Fee.

1906.02 Multiple Fixed Rate Bonds

Operating Procedures

If the fixed rate Bond issue has multiple Bonds with different maturity dates and interest rates, the fixed rate for the entire Bond issue will be the weighted average of the individual Bond rates, and considering the different maturities.



Section 1907 Credit Enhancing Variable Rate Bonds

1907.01 Terms

Guidance

Fannie Mae does not provide liquidity support for variable rate demand Bonds.

Requirements

Terms	Credit Enhancement Instrument	MBS for Bonds
Variable Interest Rate	A Bond and Credit Enhancement Mortgage Loan must have an interest rate linked to <ul style="list-style-type: none"> • the SIFMA Municipal Swap Index, • an Index that adjusts weekly, or • a SOFR-based index. 	<ul style="list-style-type: none"> • Mortgage Loan must comply with Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans. • Bonds must have an interest rate linked to a SOFR-based index.
Bond Liquidity	You must obtain Fannie Mae's approval for any third party providing Bond liquidity support.	
No New 4% LIHTCs	Credit Enhancement Mortgage Loan must have a term of at least 5 years, with a maximum of 30 years.	Credit Enhancement Mortgage Loan must have a: <ul style="list-style-type: none"> • term of at least 5 years, with a maximum of 30 years; and • Maturity Date coinciding with the <ul style="list-style-type: none"> - final Bond maturity date, adjusted for applicable payment timing differences, or - initial Bond tender and remarketing, if the Bond has a scheduled mandatory tender date for remarketing.



New 4% LIHTCs	Credit Enhancement Mortgage Loan must have a term of at least 10 years, with a maximum of 30 years.	Credit Enhancement Mortgage Loan must have a: <ul style="list-style-type: none"> • term of at least 10 years, with a maximum of 30 years; and • Maturity Date coinciding with the <ul style="list-style-type: none"> - final Bond maturity date, adjusted for applicable payment timing differences, or - initial Bond tender and remarketing, if the Bond has a scheduled mandatory tender date for remarketing.
Variable Underwriting Maximum Note Rate	Determined by Fannie Mae.	Per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans .
Amortization	For a variable rate Credit Enhancement Mortgage Loan using an Interest Rate Cap, use the greater of the <ul style="list-style-type: none"> • Variable Underwriting Rate, or <ul style="list-style-type: none"> • Maximum Note Rate, or • actual Cap Strike Rate. 	Per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans .
Maximum SARM Loan	Per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans .	
PRF	You must establish a PRF .	Not applicable.
Fannie Mae Fees	Credit Enhancement Fee .	Guaranty Fee .
Trustee Fee and Bond Issuer Fee	Underwritten as <ul style="list-style-type: none"> • an operating expense, or • part of the Gross Note Rate. 	Underwritten as an operating expense.



Gross Note Rate	Sum of the <ul style="list-style-type: none"> • Bond interest rate, • Facility Fee (calculated per Part III, Chapter 19: Bond Transactions and Credit Enhancement Mortgage Loans, Section 1908: Facility Fee) divided by the Bond UPB, • trustee fee and Bond Issuer fee, if they are not underwritten as an operating expense, and • cap cost factor. 	Sum of the <ul style="list-style-type: none"> • Bond interest rate, • Guaranty Fee, and • Servicing Fee.
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1907.02 Principal Reserve Fund

Operating Procedures

Topics	Principal Reserve Fund Process
Borrower Election	Before Commitment , the Borrower must select 1 of the following options to redeem Bonds : <ul style="list-style-type: none"> • Minimum Dollar Balance: <ul style="list-style-type: none"> - Required option for a non-single-asset entity Borrower. - PRF deposits accumulate until the balance is at least \$100,000. - Bonds eligible for redemption are redeemed in \$100,000 increments. • Minimum Percentage Balance: <ul style="list-style-type: none"> - PRF deposits accumulate until the balance is at least \$100,000 greater than 20% of the original Bond principal amount. - Bonds eligible for redemption are redeemed in \$100,000 increments, but the redemption payments may not reduce the PRF balance below 20% of the original Bond principal amount.



Topics	Principal Reserve Fund Process
PRF Deposit Amount	<p>PRF deposits represent the principal amortization amount of the Credit Enhancement Mortgage Loan based on</p> <ul style="list-style-type: none"> • level P&I payments throughout the Bond term, and • amortization per Part III, Chapter 19: Bond Transactions and Credit Enhancement Mortgage Loans, Section 1907.01: Terms.
PRF Deposit Schedule	<p>On the Mortgage Loan Origination Date, you must calculate and attach the Schedule of Deposits to the Principal Reserve Fund to the Reimbursement Agreement.</p>

1907.03 Interest Rate Cap

Requirements

Terms	You must ensure the third-party Interest Rate Cap...
Interest Rate Cap	For a variable rate Credit Enhancement Mortgage Loan with variable rate Bonds , is purchased and maintained for the entire time the variable rate Bonds are credit enhanced.
Index	Has the same Index as the variable rate Bonds .
Interest Rate Cap Provider	Is obtained from an approved provider listed on https://multifamily.fanniemae.com .
Initial Interest Rate Cap	Notional Amount equals the Bond UPB when the Interest Rate Cap is purchased.
Minimum Interest Rate Cap Term	<p>Agreement remains continually in place until the earlier of</p> <ul style="list-style-type: none"> • 5 years, or • the remaining Bond term.



Replacement Interest Rate Cap	Replacement is purchased if the existing Interest Rate Cap expires before the variable rate Bond conversion or Maturity Date .
Replacement Cap Strike Rate for Replacement Interest Rate Cap	Cap Strike Rate for the Replacement Interest Rate Cap is the same or lower than that of the initial Interest Rate Cap Cap Strike Rate.
Cap cost factor	Cost factor is included in the Maximum Variable Underwriting Rate Note Rate per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.03: Including the Cap Cost Factor in the Variable Underwriting Rate Cap Cost Factor Included in Maximum Note Rate (21431) .
Interest Rate Cap Reserve Adjustment	Cash reserve: <ul style="list-style-type: none">• is evaluated at the end of each 126-month period to determine if the cost of the replacement Interest Rate Cap has increased, based on market conditions; and• future deposits are not decreased even if the future Interest Rate Cap cost has decreased.
Documents	Documents are: <ul style="list-style-type: none">• on acceptable forms; and• delivered to Fannie Mae, including the<ul style="list-style-type: none">- Interest Rate Cap Agreement, and- applicable Interest Rate Cap Reserve and Security Agreement (Form 6442 series).

Operating Procedures

Fannie Mae will engage outside counsel at your expense to review all Interest Rate Cap-related documents.

1907.04 Cap Strike Rate

Operating Procedures

The Borrower must purchase an Interest Rate Cap with a Cap Strike Rate that is determined



- for a Credit Enhancement Instrument, by Fannie Mae, or
- for an MBS for Bonds, per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.02: Determining the Cap Strike Rate.

1907.05 Cap Cost Factor Included in Maximum Note Rate

✓ Requirements

When determining the Maximum Note Rate used to calculate the minimum required Underwritten DSCR, you must include a cap cost factor based on the term of the

- Credit Enhancement Mortgage Loan, and
- initial Interest Rate Cap.

You do not need to include a cap cost factor if the initial Interest Rate Cap term equals the Credit Enhancement Mortgage Loan term.

You must ensure the cap cost factor equals the

- estimated cost of the replacement cap (when the term of the initial cap expires), divided by
- term of the initial cap.

✿ Operating Procedures

For example, to calculate the cap cost factor assuming a 5-year Interest Rate Cap and 10-year Credit Enhancement Mortgage Loan term:

- You must include an annual cap cost factor in the Maximum Note Rate.
- If the Credit Enhancement Mortgage Loan term is 10 years and an initial cap is purchased for a 5-year term, the cap cost factor equals the estimated cost of a replacement cap divided by 5 (the number of years of the initial interest rate term).
- The replacement cap has a 5-year term and a Cap Strike Rate equal to that of the initial cap.
- If a 5-year Interest Rate Cap at the initial Cap Strike Rate costs 20 basis points, you must divide 20 by 5, then add the result (4 basis



points) to the Maximum Note Rate.

1907.05 Interest Rate Cap Reserve

1907.06

Requirements

You must ensure the Borrower fully funds a cash reserve to purchase replacement Interest Rate Caps.

Operating Procedures

- If the initial Interest Rate Cap Agreement term is 5 years, you must ensure the Borrower funds the cash reserve with each monthly Mortgage Loan payment during the term.
- Calculate the monthly reserve payments for the first 126 months using the estimated cost of a replacement Interest Rate Cap with a 5-year term and the initial Cap Strike Rate.
- If the initial Interest Rate Cap term is more than 5 years, you must ensure the Borrower's monthly reserve payments for the replacement cap begin no later than 5 years before the existing Interest Rate Cap expires.

Guidance

For example, if

- a 5-year initial Interest Rate Cap is purchased with a 10-year term and a 6.00% Cap Strike Rate, and
- the cost of a replacement 5-year cap with a 6.00% Cap Strike Rate is \$140,000, then
- the monthly reserve for the first 126 months would be \$2,333.33 (\$140,000 cost ÷ 60 months).

1907.06 Interest Rate Cap Reserve Adjustments

1907.07

Requirements

You must evaluate the Interest Rate Cap reserve every 126 months. If the replacement Interest Rate Cap cost:



- increased, you must raise the monthly reserve payment to purchase the replacement **Interest Rate Cap** before the existing **Interest Rate Cap** expires; or
- decreased, do not adjust the reserve.

When a replacement **Interest Rate Cap** is purchased, the reserve cycle resets to match the term of the new **Interest Rate Cap**. Any amount remaining in the reserve after purchasing the replacement **Interest Rate Cap** must be used to fund the subsequent reserve.

1907.07 Interest Rate Cap Contract Documentation and Delivery

1907.08

Requirements

For credit enhancements using:

- an MBS, you must comply with Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.05: Interest Rate Cap Contract Documentation and Delivery; or
- a Credit Enhancement Instrument, this Section applies.

Operating Procedures



Topic	Process
Cap Provider Payment	<p>You must ensure the Interest Rate Cap provider pays you or the Bond Trustee directly</p> <ul style="list-style-type: none"> • on the 1st or 15th day of the month corresponding with the Bond payment dates, and • when the Bond interest rate index is greater than the average Cap Strike Rate for a month. <p>Only disburse a provider payment to the Borrower if</p> <ul style="list-style-type: none"> • there is no Mortgage Loan default, and • you received all payments due under the Indenture and Bonds for that month. <p>If the Borrower defaults under the Mortgage Loan or Reimbursement Agreement, you must</p> <ul style="list-style-type: none"> • promptly notify Fannie Mae and any applicable Bond Trustee, and • direct the Bond Trustee to suspend its payment to the Borrower.
Timing	<p>The Borrower must accept a bid for the initial Interest Rate Cap in writing from a Fannie Mae approved provider before you request a Commitment.</p>
Purchase Price	<p>The Borrower must pay the entire purchase price for an Interest Rate Cap to the provider when the Interest Rate Cap Agreement is issued.</p>
Pledge to Fannie Mae	<p>The Borrower must pledge its interest in the Interest Rate Cap and any reserve to Fannie Mae using the documentation provided by Fannie Mae’s counsel.</p>



 Operating Procedures

For Credit Enhancement Instruments, you must calculate the Facility Fee as follows:

FACILITY FEE CALCULATION		
Item	Function	Description
CREDIT ENHANCEMENT FEE / GUARANTY FEE CALCULATION		
1		<ul style="list-style-type: none"> • Applicable Credit Enhancement Fee, or • Guaranty Fee
	MULTIPLIED BY	Credit Enhancement Mortgage Loan UPB
	MINUS	PRF balance, excluding interest
	EQUALS	Credit Enhancement Fee / Guaranty Fee
SERVICING FEE CALCULATION		
2		Servicing Fee
	MULTIPLIED BY	Credit Enhancement Mortgage Loan UPB
	MINUS	PRF balance, excluding interest
	EQUALS	Servicing Fee
PRF FEE CALCULATION		
3		For variable rate Bonds, PRF Fee Rate
	MULTIPLIED BY	PRF balance, excluding interest
	EQUALS	PRF Fee
BOND LIQUIDITY FEE CALCULATION		
4		For variable rate Bonds, Bond Liquidity Fee Rate
	MULTIPLIED BY	Bond UPB
	EQUALS	Bond Liquidity Fee



FACILITY FEE CALCULATION		
Item	Function	Description
FACILITY FEE CALCULATION		
5		Credit Enhancement Fee / Guaranty Fee
	PLUS	Servicing Fee
	PLUS	any PRF Fee
	PLUS	any Bond Liquidity Fee
	EQUALS	Facility Fee

Section 1909 Taxable Tails and Supplemental Mortgage Loans

1909.01 Taxable Tails

Requirements

Terms	A Taxable Tail must...
Structure	Be fixed or variable rate debt structured as <ul style="list-style-type: none"> • Bonds, • a Cash Mortgage Loan, or • an MBS Mortgage Loan.
Underwriting and Loss Sharing	Be treated with the Credit Enhancement Mortgage Loan <ul style="list-style-type: none"> • as a single combined Mortgage Loan, and • with a blended weighted average Underwritten DSCR, LTV, interest rate, etc., based on the combined UPB of the tax-exempt and taxable debt.
Cross Provisions	Be cross-collateralized and cross-defaulted with the Credit Enhancement Mortgage Loan.
MBS Mortgage Loan	Have Additional Disclosure.



Terms	A Taxable Tail must...
Maturity and Prepayment	<ul style="list-style-type: none">• Mature no earlier than the Credit Enhancement Mortgage Loan.• Be fully repaid before the Credit Enhancement Mortgage Loan is prepaid.

Operating Procedures

A [Taxable Tail](#) usually fully amortizes over its loan term. This may require “hyper-amortization” where all principal payments are applied

- first to the [Taxable Tail](#) until it fully amortizes, and
- then to the tax-exempt debt.

1909.02 Supplemental Mortgage Loans

Requirements

You must ensure any [Supplemental Mortgage Loan](#):

- is taxable debt that is cross-collateralized and cross-defaulted with the [Credit Enhancement Mortgage Loan Property](#);
- is originated after the [Credit Enhancement Mortgage Loan](#);
- complies with the [Bond](#) documents; and
- is properly disclosed to [Investors](#).

Section 1910 Third-Party Subordinate Financing

Requirements

For third-party subordinate financing, you must comply with [Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704: Subordinate Financing](#).

Section 1911 Moderate Rehabilitation Mortgage Loan with Side-by-Side Bond Financing

Guidance



Fannie Mae may purchase a [Moderate Rehabilitation Mortgage Loan](#) for an [MAH Property](#) when the [Borrower](#) separately obtains side-by-side [Bond](#) financing. Since Fannie Mae does not credit enhance the [Bonds](#), you may use your own outside counsel.

Requirements

For a [Moderate Rehabilitation Mortgage Loan](#) with side-by-side [Bond](#) financing, you must ensure the [Bonds](#)

- have a shorter term than the [Mortgage Loan](#),
- are fixed rate,
- are tax-exempt,
- are 100% secured by cash collateral, and
- are not secured by the [MAH Property](#).



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/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.

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 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.

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 Adjusting Interest Rate Hedge Reserves for SARM Loans Using Form 6442 Series with an Effective Date Before May 2024

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 may:~~
 - opt to not adjust the reserve; or
 - calculate and adjust the monthly escrow payments needed to purchase a replacement Interest Rate Cap based on 115% of the cost of an Interest Rate Cap with the term required by the Loan Documents, provided:
 - it is a Portfolio Mortgage Loan Delivered before January 1, 2023;
 - the Interest Rate Cap escrow payments are recalculated at least every 6 months;
 - it is not part of a Variable Rate Bond Credit



Enhancement Transaction:

- it does not have an existing Payment Default or Performance Default under the Loan Documents or a Borrower, Key Principal, or Principal on ACheck; and
- no other Portfolio Mortgage Loans in your Fannie Mae portfolio with that Sponsor have an existing Payment Default or Performance Default.

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

409.02D Adjusting Interest Rate Hedge Reserves for SARM Loans Using Form 6442 Series with an Effective Date of May 2024 or Later

Every 6 months the Servicer must adjust the required Interest Rate Cap escrow amount based on 110% of the current cost of 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~~ If the current [Interest Rate Hedge](#) expires before the [Mortgage Loan Maturity Date](#), at least 90 days before termination of ~~an~~ the [Interest Rate Hedge](#) ~~terminates~~, the ~~Borrower~~ [Servicer](#) must ~~give~~ [obtain](#) the ~~Servicer~~ [Borrower's](#) written notice of its ~~intent~~ [intention](#) 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.:

- [purchase a replacement Interest Rate Hedge; or](#)
- [convert the interest rate on a variable rate;](#)
 - [Credit Enhancement Mortgage Loan to a Bond Reset Interest Rate; or](#)
 - [SARM Loan to a fixed rate.](#)

If the [Borrower](#) elects to ~~obtain~~ [purchase](#) a new [replacement 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.:

- [confirm that the possible Interest Rate Hedge providers are all on the current list of approved Cap/Swap Counterparties for Multifamily Transactions;](#)
- [review the Loan Documents for the replacement Interest](#)



Rate Hedge timing requirements; and

- for a replacement Interest Rate Cap, ensure the:
 - Borrower purchases a replacement Interest Rate Cap with a term equal to the lessor of the:
 - remaining Mortgage Loan term; or
 - term specified in the Loan Documents;
 - replacement Interest Rate Cap's notional amount:
 - equals the Mortgage Loan's UPB when the replacement Interest Rate Cap becomes effective;
and
 - remains at that amount throughout the replacement Interest Rate Cap's term; and
 - Cap Strike Rate of the replacement Interest Rate Cap is equal to or less than the Cap Strike Rate required per the Loan Documents.

The Borrower may purchase a replacement Interest Rate Cap in advance if the replacement Interest Rate Cap becomes effective on the initial Interest Rate Cap's Maturity Date.

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.

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 [Part III, Chapter 23: Expanded Housing Choice](#); 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...
Fails a second round of fair housing testing	<ul style="list-style-type: none"> • ensure the Borrower conducts additional fair housing training for its employees per Fannie Mae’s requirements; and • require the Borrower to submit Supplemental Annual Loan Agreement Certification (Expanded Housing Choice) (Form 6620.Supplemental.Expanded Housing Choice).
Fails to complete any required fair housing training within the required time frame	<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.
Fails to provide any required Supplemental Annual Loan Agreement Certification (Expanded Housing Choice) (Form 6620.Supplemental.Expanded Housing Choice)	<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.
Fails a third round of fair housing testing	<ul style="list-style-type: none"> • ensure the Borrower enters into a remedial housing plan with Fannie Mae per Form 6273; and • submit a Non-Monetary Default Borrower Request in the MAMP.



If the Borrower...	The Servicer must...
Is otherwise determined not to be complying with Part III, Chapter 23: Expanded Housing Choice	<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.

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

■ **Cap Strike Rate**

Maximum specified Index interest rate that will trigger specified in the Interest Rate Cap Agreement at or above which a payment obligation will be triggered by the Interest Rate Cap provider.

■ **Interest Rate Cap**

Interest rate agreement between the Borrower and a provider for which the Borrower receives payments at the end of each period when the interest rate exceeds the Cap Strike Rate. The Interest Rate Cap provides a ceiling (or cap) on the Borrower's Mortgage Loan interest payments.

Synonyms

Interest Rate Caps
Interest Rate Hedge
Interest Rate Hedges
Interest Rate Swap
Interest Rate Cap's

■ **Maximum Note Rate**

Equals the sum of the:

- minimum Cap Strike Rate as set by Fannie Mae; and
- Mortgage Loan margin equal to the sum of the
 - Investor spread,
 - Guaranty Fee, and
 - Servicing Fee.

■ **Variable Underwriting Rate**

Rate for Structured ARM Mortgage Loans per Part III, Chapter 12:



Structured Adjustable Rate Mortgage (SARM) Loans, Section 1202:
Underwriting.