



# Multifamily Selling and Servicing Guide

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# Summary of Changes

HIGHLIGHTS
<p><b>Effective November 15, 2022</b>, Fannie Mae continues its CLASS initiative by publishing a new rewritten Part V, Chapter 5: Surveillance.</p>

## Primary Changes

With your support and partnership, we simplified and rewrote another Part V chapter.

## Questions

Please contact the Multifamily Asset Management team at [drawer\\_am@fanniemae.com](mailto:drawer_am@fanniemae.com) with any questions.



## Chapter 1 Overview

### Section 101 Using the Guide

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#### 101.01 Organization

##### Requirements

The [Guide](#) is divided into 3 categories:

- Requirements are mandatory conditions that must be satisfied for all [Lender-delegated Mortgage Loans](#) and activities. You must obtain Fannie Mae's prior approval to [Deliver a Mortgage Loan](#) or perform an activity that does not comply with any requirement.
- Guidance are best practices to inform and support a [Lender's](#) delegated analysis and decision-making. Fannie Mae expects you to exercise your delegated authority in a prudent manner, and will review your analysis and delegated decisions.
- Operating Procedures are required steps or processes that must be followed.

The [Lender Contract](#) provides Fannie Mae with certain rights, remedies, and corrective actions if you fail to satisfy requirements, follow the operating procedures, or exercise delegated authority in a prudent manner.

If the [Guide](#) does not specify a category, then the information is a requirement.

#### 101.02 References

##### Requirements

In the [Guide](#) The following rules apply:

- a reference to the [Guide](#) includes any:
  - update, amendment, restatement, modification, or supplement;
  - and
  - referenced exhibits, appendices, or other forms;
- a reference to any [Person](#) also includes the [Person's](#) successors and assigns;
- a reference to any [Loan Document](#), statute, regulation, or standard,





also includes all amendments, modifications, or restatements made from time to time; and

- whenever you make a representation “to your knowledge” or “to the best of your knowledge,” you mean the actual state of knowledge of your officers and employees responsible for the underwriting, origination, servicing, or sale of the [Mortgage Loan](#) regarding the matters expressly set forth in the representation, in each case without having conducted any independent inquiry into such matters, and without any obligation to do so (except as expressly set forth herein). All information contained in documents which are part of or required to be part of your [Servicing File](#) is deemed to be within your knowledge.

Registered and unregistered trademarks can be found on Fannie Mae’s trademarks website. You must include the appropriate trademark symbols when using Fannie Mae’s protected words and phrases, and comply with the instructions on the website.

## Section 102 Delegation and Underwriting

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### Requirements

You must comply with the [Guide](#) in its entirety. Your [Lender Contract](#) describes your delegated authority to underwrite and [Deliver Mortgage Loans](#).

For underwriting and [Delivery](#) to be fully delegated to you, you must underwrite the [Mortgage Loan](#) to meet the requirements provided in

- the Multifamily Underwriting Standards ([Form 4660](#)),
- Part I,
- Part II, and
- the applicable chapters of Part III based on the specific products and features of the [Mortgage Loan](#).

If the [Mortgage Loan](#) does not comply with the applicable requirements, it is a [Pre-Review Mortgage Loan](#) (see [Part I, Chapter 2: Mortgage Loan, Section 203: Pre-Review Mortgage Loans](#)).

## Section 103 Transaction Approval Memo

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### Requirements



Your Transaction Approval Memo must:

- document your analysis of all reasonably identifiable strengths and weaknesses of the proposed [Mortgage Loan](#) transaction; and
- address and mitigate the following:
  - [Property's](#) financial performance, trends, and value;
  - [Property's](#) current physical condition and expected condition over the term of the [Mortgage Loan](#);
  - environmental conditions and seismic risk impacting the [Property](#);
  - ability of the [Property](#) to be refinanced at the [Maturity Date](#);
  - [Borrower's](#), [Key Principals'](#), and [Guarantors'](#) financial capacity and experience;
  - [Property](#) market's performance and trends;
  - any other factors that could impact the transaction during the [Mortgage Loan](#) term or at the [Maturity Date](#); and
  - analysis and support for your decisions on any matters covered by requirements or guidance in Parts I, II, and III.

### ➔ Guidance

Fannie Mae will consider the quality and thoroughness of your analysis, and the appropriateness and quantity of adjustments made

- in the underwriting,
- during the monitoring process, and
- when exercising the remedies or corrective actions provided in the [Lender Contract](#).

## Section 104

### Representations

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#### Requirements

When you [Deliver a Mortgage Loan](#) to Fannie Mae you represent that:

- At all times during the origination and underwriting of the [Mortgage Loan](#), you were authorized to transact business in the [Property's](#) jurisdiction. If you were not authorized, then none of your activities related to the [Mortgage Loan](#) requires authorization to transact



business in the [Property's](#) jurisdiction.

- If the laws of the [Property's](#) jurisdiction do not require you to be authorized to do business, then this lack of authorization will not adversely affect the mortgagee's ability to enforce the [Mortgage Loan](#).
- You are the sole owner and holder of the [Mortgage Loan](#) and have full right and authority to sell the [Mortgage Loan](#) to Fannie Mae.
- Your right to sell the [Mortgage Loan](#) to Fannie Mae is not subject to any other party's interest or [Lien](#), or to any agreement with any other party.
- You complied with all applicable federal or state laws, regulations, or other requirements regarding
  - fair lending,
  - fair housing,
  - consumer credit,
  - equal credit opportunity,
  - truth-in-lending, and
  - the prohibition of redlining and other forms of disparate treatment.
- Unless modified by Fannie Mae's [Pre-Review](#) approval, the [Mortgage Loan](#) meets
  - the requirements of the [Guide](#),
  - the [Form 4660](#), and
  - all applicable requirements of your [Lender Contract](#).
- The [Mortgage Loan](#) either meets or is exempt from any usury laws or regulations.
- The [Loan Documents](#) you deliver to Fannie Mae are the appropriate and correct forms for the particular transaction under the [Guide](#) and contain the same provisions as those provided to you by Fannie Mae (except for completion of blanks, deletion of bracketed information which is not applicable, and other changes approved by Fannie Mae).
- The [Borrower](#) is not in default under any of the terms of the [Loan Documents](#) and would not be in default under any of the terms of the [Loan Documents](#) with the passage of time, the giving of notice, or both.



- The terms and conditions of the [Mortgage Loan](#) (as reflected in the [Loan Documents](#)) have not been amended, modified, or supplemented by
  - any other agreement or understanding of the parties, or
  - waiver of any of the material provisions of those [Loan Documents](#).
- All documents that evidence, secure, or otherwise relate to the [Mortgage Loan](#) have been delivered to Fannie Mae. If you are not the actual party assigning the [Mortgage Loan](#) to Fannie Mae because of the financing structure (e.g., a variable rate bond transaction), you make this representation only to the best of your knowledge.
- The [Mortgage Loan](#) has not been satisfied, cancelled, released, or subordinated, and Fannie Mae has approved in writing any material modification to the [Mortgage Loan](#) occurring after the [Mortgage Loan Origination Date](#), including any change in the:
  - [Mortgage Loan](#) amount, [Gross Note Rate](#), [Maturity Date](#), amortization period, or timing of payments;
  - [Collateral](#) or [Lien](#) priority;
  - reserve types required per the [Loan Documents](#) or their release provisions;
  - [Mortgage Loan](#) recourse provisions, including the addition of new non-recourse carveouts;
  - [Borrower's](#) organization type; or
  - [Persons](#) personally liable for the [Mortgage Loan](#), including any [Payment Guaranty](#) or additional credit enhancement.
- The [Lien](#) on the [Collateral](#) identified in the [Transaction Approval Memo](#) is valid.
- The [Borrower](#) has properly signed the [Loan Documents](#); they are valid and enforceable obligations of the [Borrower](#), subject to bankruptcy, reorganization, or insolvency laws, or other general principles of equity.
- To the best of your knowledge, as of the [Delivery](#) of the [Mortgage Loan](#):
  - the [Property](#) does not have any subordinate loans that have not been pre-approved by Fannie Mae;
  - the [Property](#) has not been damaged by any [Catastrophic Event](#);



- the **Property** has not been condemned or been a part of any proceeding that would impair
  - the value of the **Mortgage Loan**,
  - the value of the **Property**, or
  - the usefulness of the **Property** for the contemplated purpose; and
- there are no proceedings – pending or contemplated – to partially or totally condemn the **Property**.
- To the best of your knowledge:
  - the credit reports and financial statements relating to the **Borrower(s)** (and to any other person or entity required by the **Guide**) correctly reflect the financial condition of these person(s) without material exception; and
  - as of the **Delivery** of the **Mortgage Loan**, none of the following is the subject of an existing or contemplated bankruptcy, reorganization, insolvency, or comparable proceeding
    - any **Borrower**,
    - any general partner of a **Borrower**,
    - any **Key Principal**,
    - any **Guarantor**, or
    - any other party whose bankruptcy could negatively impact one of these parties.
- If the **Mortgage Loan** is insured or guaranteed by any **Person**, including any governmental authority
  - you have ensured that insurance or **Guaranty** is in effect, and
  - you have complied with all applicable provisions of the insurance or **Guaranty** that covers the **Mortgage Loan**.
- The **Property** is free of all mechanics', materialmen's, or similar **Liens**, and there are no rights outstanding that could cause such liens. (The only exceptions are mechanics' or materialmen's **Liens** which attach automatically under the laws of any governmental authority when work is started or materials are delivered to the **Property** and the **Borrower** is not delinquent in the payment for this work or materials).



- You have not made or knowingly received from others, any advance of funds (directly or indirectly) on behalf of the **Borrower** connected with the **Mortgage Loan** transaction, except for funds permitted in the **Guide** or related to interest paid from the earliest of the:
  - date of the **Note**;
  - date the **Mortgage Loan** proceeds were disbursed to the **Borrower**; or
  - date 1 month before the first installment of **P&I** on the **Mortgage Loan** is due.
- To the best of your knowledge, based solely on the survey and the title insurance policy connected with the origination of the **Mortgage Loan** (except for encroachments that do not materially and adversely affect the current marketability or principal use of the **Property**, or that are insured against by the title insurance policy):
  - all material improvements used to determine the appraised value of the **Property** when the **Mortgage Loan** was originated are within the boundaries of the **Property**;
  - no material improvements on adjoining parcels encroach onto the **Property**; and
  - no material improvements encroach onto any easements.
- To the best of your knowledge, nothing involving the **Mortgage Loan**, the **Property**, or the **Borrower** can reasonably be expected to:
  - cause private institutional investors to regard the **Mortgage Loan** as an unacceptable investment;
  - cause the **Mortgage Loan** to become delinquent; or
  - adversely affect the **Mortgage Loan**'s value or marketability.
- If the **Mortgage Loan** provides that the interest rate or principal balance may be adjusted, Fannie Mae may enforce the terms of the **Mortgage Loan**, and these adjustments will not affect the priority of the **Lien**.
- All **Mortgage Loan** proceeds were funded on the **Mortgage Loan Origination Date**
  - directly to or for the benefit of the **Borrower**, or
  - to fund reserves or escrows per the **Loan Documents**.
- All electronic data you submit is accurate and complete.



- If Fannie Mae's interest in the [Mortgage Loan](#) is a [Participation Interest](#), all of the information and statements in any participation certificate that you deliver are complete, correct, and true.

### Guidance

Redlining is illegal and occurs when a lender provides unequal access to credit, or offers unequal credit terms, because of the race, color, national origin, or other prohibited characteristics of the residents of the area in which the mortgaged property is located.

You may consider locational factors when appraising and underwriting if your risk analysis

- is based only on valid credit factors that reliably predict risk, and
- applies Fannie Mae's guidelines in a consistent, equitable, and legal manner.



## Chapter 4 Asset Management: Loan Document Administration

### Section 401 Servicing Requirements

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#### 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 V, Chapter 6: Watchlist Management](#) and [Part V, Chapter 7: Non-Performing 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

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### **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

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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

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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

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### 407.01 Non-Fannie Mae Subordinate Financing

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



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

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

#### **407.02** Prerequisite for Subordinate Financing

Part III, Chapter 14: Supplemental Mortgage Loans, contains the requirements for Supplemental Mortgage Loans, and Part III, Chapter 7: Multifamily Affordable Housing Properties contains additional requirements for subordinate financing with respect to a **Multifamily Affordable Housing Property**. The **Servicer** must ensure adherence to all applicable requirements.

#### **407.03** Fees for Subordinate Financing

The **Borrower** must pay the **Servicer** a \$2,500 review fee. The



**Servicer** may increase or decrease its fee at its discretion. No Fannie Mae review fees are due. The **Servicer** may also seek reimbursement from the **Borrower** for all reasonable out-of-pocket costs, including reasonable legal fees incurred by **Servicer's** counsel.

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

#### **407.04** Submitting the Request for Subordinate Financing

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

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





inspection of the **Property** reveals that the **Property** is not being properly maintained, the **Borrower** request will not be approved by Fannie Mae unless:

- a **Replacement Reserve** is sufficiently funded; and
- the **Borrower** makes any immediate repairs identified by the **Servicer** prior to the closing date of the **Subordinate Loan**; and
- a title policy endorsement for the **Property** showing no unauthorized **Liens** or encumbrances of any nature against the **Property**.

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

#### **407.05** Fannie Mae Approval and Execution

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

#### **407.06** Subsequent Servicer Actions

The **Servicer** must:

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





- send the original executed copy of the recorded Subordination Agreement and the title policy endorsement to Multifamily Certification and Custody within 15 Business Days, and retain copies of each in the Servicing File.

## Section 408 Administration of Collateral Agreements

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### 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 under a Completion/Repair Agreement, 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 402: 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 for Secondary Risk Mortgage Loans 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"> <li>• low-flow water fixtures; or</li> <li>• lighting improvements.</li> </ul>	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 Protocols Property Inspection Protocol (18011) and Part V, Chapter 5: Surveillance, Section 502.05: Property Inspector QualificationsQualifications (18036).
Complex	Upgrades and changes to building systems, such as: <ul style="list-style-type: none"> <li>• heat recovery ventilation systems; or</li> <li>• boiler controls.</li> </ul>	<ul style="list-style-type: none"> <li>• For Solar PV System Efficiency Measures, the Servicer must retain a               <ul style="list-style-type: none"> <li>- Solar Technical Consultant per Part III, Chapter 4: Green Mortgage Loans, Section 401.03: Technical Solar Report, or</li> <li>- qualified PCA High Performance Building Consultant per the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099).</li> </ul> </li> <li>• For other Efficiency Measures, the Servicer must retain a qualified PCA High Performance Building Consultant per Form 4099.</li> </ul>

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

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. Streamlined PCA Permitted

The Servicer may use Streamlined PCA Guidance (Form 4099.A) if the most recent Property site inspection:

- was performed according to Part II, Chapter 4: Inspections and Reserves, Section 401: Site Inspection and Lease Audit;
- indicated an overall rating of 1 or 2; and
- did not reveal any adverse change in Property condition (except normal wear and tear) or life safety issues.

## 3. 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 under a Completion/Repair Agreement, 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](#);
- 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 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 was permitted to execute the Fannie Mae form Interest Rate Cap Reserve and Security Agreement (Springing Cap) (Form 6442.SC), or a similar agreement, allowing for a "springing" Interest Rate Cap under certain circumstances, and (ii) the requirement of the Borrower to acquire and pledge to the Lender an Interest Rate Cap has been triggered under the agreement.

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

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

Fannie Mae outside counsel must be engaged, at Borrower's cost, to review the hedge bid package and documents, and prepare the amended Loan Documents for each hedge renewal. The Servicer must submit a completed Counsel Designation Request for Interest Rate



## Hedge Transactions (Form 4625.A).

### 409.02 Interest Rate Hedge Coverage

#### 409.02A Bond Credit Enhancement Transactions

For Bond Credit Enhancement Mortgage Loans, the Interest Rate Hedge must:

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

#### 409.02B Structured Transactions

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

#### 409.02C All Hedges

At the end of each 12-month period, the Servicer must evaluate the Interest Rate Cap reserve and determine if the cost of a replacement Interest Rate Cap has increased or decreased based on market conditions.

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

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

### 409.03 Interest Rate Hedge Term

The Servicer must:

- monitor the term of each Interest Rate Hedge Agreement;



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

#### 409.04 Lien Filings and Collateral

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

#### 409.05 Borrower Payments

##### 409.05A Interest Rate Caps

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

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

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

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





#### 409.05B Interest Rate Swaps

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

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

Payments due on the **Interest Rate Swap** must match the payment dates on the **Mortgage Loan** or the **Bonds**, as applicable. The **Servicer** must advance **Interest Rate Swap** payments and **Interest Rate Swap** credit enhancement fees that are not made by the **Borrower** or the **Interest Rate Swap** provider, as applicable, on a timely basis. These payments and their duration will be treated as **Delinquency Advances**. The **Servicer** is not required to advance any termination payment due on the **Interest Rate Swap**.

#### 409.06 Provider Ratings

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

#### 409.07 Replacement Interest Rate Hedge and Notification

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

If the **Borrower** elects to obtain a new **Interest Rate Hedge**, the **Servicer** must confirm that the possible **Interest Rate Hedge** providers are all on the current list of approved **Cap/Swap Counterparties** for





Multifamily Transactions, and review the Loan Documents for the timing requirements.

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

#### **409.08** Replacement Interest Rate Hedge Documents and Follow Up

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

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

## **Section 410**

### Ground Leases

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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

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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

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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

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### 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** **Surveillance (17991)**.

#### **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

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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

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### **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;
- [Completion/Repair Agreement](#) extensions;
- 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 the MAMP 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;
- third party reports; 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

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### **418.01** Bond Transactions and Credit Enhancement Mortgage Loans

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



## **418.02** Compliance Issues Relative to Bond Credit Enhancement Transactions

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

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

## **418.03** Monitoring Compliance; Notification of Noncompliance

### **418.03A** Affordable Regulatory Agreement

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

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

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

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

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

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



## Monetary Default Borrower Request in the MAMP.

### 418.04 Multifamily Affordable Housing (MAH) Properties

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

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

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

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

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

### 418.05 Low-Income Housing Tax Credits

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

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



until the syndication is completed.

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

#### **418.06** Enhanced Resident Services

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

#### **418.07** Expanded Housing Choice

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

- receive from the **Borrower** a Supplemental Annual Loan Agreement Certification (Expanded Housing Choice) (**Form 6620.Supplemental.Expanded Housing Choice**), including:
  - a rent schedule or rent roll identifying all units where rent is paid using **Housing Choice Vouchers**;
  - a report for all rental applications seeking to use **Housing Choice Vouchers**, including:
    - the number of rental applications;
    - the current status; and
    - an explanation for all denied applications; and
  - for the first annual Certification, complete lease files for at least 25% of the tenants paying rent using **Housing**



### Choice Vouchers;

- review [Form 6620.Supplemental.Expanded Housing Choice](#) and the rent roll for reasonableness and completeness, and notify Fannie Mae via a Borrower Request in the [MAMP](#) of any Certification issues, including non-delivery;
- within 30 days after receiving the first [Form 6620.Supplemental.Expanded Housing Choice](#), compare the [Housing Choice Voucher](#) lease files to the rent roll and notify Fannie Mae via a Borrower Request in the [MAMP](#) of any discrepancies;
- ensure the [Borrower](#) conducts any Fair Housing training required by Fannie Mae for its employees;
- submit a Non-Monetary Default Borrower Request in the [MAMP](#) if the required Fair Housing training is not completed within the required timeframe;
- notify the [Borrower](#) in writing of any default under the [Loan Documents](#) and any required recapture of the pricing incentive;
- submit a copy of any [Borrower](#) notice for recapturing the pricing incentive via a Non-Monetary Default Borrower Request in the [MAMP](#); and
- retain in its [Servicing File](#), copies of:
  - [Form 6620.Supplemental.Expanded Housing Choice](#) and the rent roll;
  - the results of the rent roll and lease file review submitted with the first [Form 6620.Supplemental.Expanded Housing Choice](#); and
  - any [Borrower](#) notices required for:
    - Fair Housing training;
    - [Loan Document](#) default; or
    - pricing incentive recapture.

### Fannie Mae:

- may conduct Fair Housing testing for a [Mortgage Loan](#) delivered with an [Expanded Housing Choice](#) pricing





incentive;

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

#### **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.



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 on-going 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 420 Single Asset Entity Conversion

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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 421 Loan Document Amendments

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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 422 Maturing Mortgage Loans

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### 422.01 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.

### 422.02 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.

### 422.03 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.

#### **422.04** 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**.



## Chapter 5

## Surveillance

### Section 501

### General

Each **Property** securing a **Mortgage Loan** must be monitored by the **Servicer** to ensure that the **Borrower** continually manages and maintains the **Property** in accordance with the requirements of the applicable **Loan Documents** and the **Guide**. The **Servicer** is required to:

- perform inspections of the **Property**;
- perform a financial analysis of the operations of **Property**; and
- report the results of such inspections and financial evaluations to Fannie Mae as required by this Chapter.

The financial analysis of operations should include an annual and, if required for that **Asset Class**, quarterly analysis of the financial performance of the **Property**.

**Property** inspections generally should include:

- an on-site inspection;
- a current overall **Property** rating based on the condition of the **Property** as of the date of the inspection (and not on projected or budgeted repairs);
- an evaluation of the **Property**'s market, submarket, and neighborhood; and
- an analysis of the competitive position of the **Property**.

Based upon the results of its inspections and financial analysis, the **Servicer** must evaluate the performance of the **Property**, and identify any **Property** that warrants special attention due to management or maintenance issues, or any financial decline that could materially adversely affect the collateral or performance of the **Mortgage Loan**. If follow-up action is required, the **Servicer** must notify Fannie Mae as provided in this Chapter, and initiate appropriate actions with the **Borrower**.

### Section 502

### Property Inspections





## 502.01 MBA Standard Inspection Form

The **Servicer** must use the:

- **Multifamily Catastrophic Loss Inspection form (Form 4261)** for any **Catastrophic Event** inspection; or
- **MBA Standard Inspection Form** for all other **Properties**.

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

On the **MBA Standard Inspection Form**, you must choose the **"Fannie Mae Inspection"** option on the **"Tools"** tab, and complete the following tabs, including assigning a rating per the **Fannie Mae Ratings scale**:

- **General Information Tab ("General Info")**;
- **Physical Condition & Deferred Maintenance Tab ("Physical Condition & DM")**;
- **Photos Tab ("Photos")**;
- **Rent Roll Tab ("Rent Roll")**;
- **Maps Tab ("Maps")**;
- **Management Interview Tab ("Mgmt Interview")**;
- **Multifamily Tab ("Multifamily")**;
- **Fannie Mae Assessment Addendum ("Fannie Mae Assmt Addendum")**; and
- **For Seniors Housing properties only: Seniors Supplement Tab ("Senior Supplement")**.

## 502.02 Mortgage Loans with Property Condition Concerns (Not Limited to Watchlist Loans)

Regardless of whether or not the **Mortgage Loan** is listed on either the **Servicer Watchlist** or the **Fannie Mae Watchlist**, the **Servicer** must inform **Multifamily Inspections** and **Multifamily Watchlist** within **10 Business Days** after becoming aware of any **Mortgage Loan** with:



- a **Property** inspection rating of 4 or 5 as shown on the Fannie Mae Assessment Addendum (“Fannie Mae Assmt Addendum”) tab of the **MBA** Standard Inspection Form;
- **Property** repairs required by the **Loan Documents** not completed timely;
- any significant deferred maintenance;
- any non-significant deferred maintenance that has not been corrected within 12 months after notifying the **Borrower** of such maintenance obligation; or
- life safety concerns.

In addition, if any of the above **Property** condition concerns are present, the **Servicer** must:

- reinstate any suspended requirements for the **Completion/Repair Escrow** or the **Replacement Reserve** unless the rating of 4 or 5 results from a casualty loss (see Part V, Chapter 5: Surveillance, Section 502.06F: Analysis of Collateral);
- inspect the **Property** as frequently as necessary to ensure the **Borrower** is resolving outstanding deferred maintenance items; and
- prior to ordering a **PCA** (excluding regularly scheduled **PCAs** required by the **Loan Documents**), submit a written request for approval to **Multifamily Watchlist**.

### 502.03 Property Inspection Protocols

The frequency of required **Property** inspections depends on the following:

- the **Mortgage Loan**'s Fannie Mae risk rating;
- the **Mortgage Loan** amount at the **Mortgage Loan Origination Date**; and
- other criteria outlined in the table below.

#### PROPERTY INSPECTION PROTOCOL

Protocol if Original Mortgage Loan Amount is Greater than \$30 million



PROPERTY INSPECTION PROTOCOL						
Mortgage Loan Type	Fannie Mae Mortgage Loan Rating	Inspection Frequency	Min % of Total Units to be Inspected <sup>1</sup>	Min/Max Number of Units to be Inspected <sup>2</sup>	Min Required Photos	Third-Party or In-House Inspector
All Mortgage Loans, other than Seniors Housing Mortgage Loans and Mortgage Loans secured by Rent-Stabilized Properties	Pass or Special Mention	Annual Full Inspection	5%	5/15	15	Third-Party or In-House
	Substandard or Doubtful	Annual Full Inspection	10%	10/20	15	In-House Only
Seniors Housing Mortgage Loans	Pass or Special Mention	Annual Full Inspection	5%	5/15	15	Third-Party or In-House
	Substandard or Doubtful	Annual Full Inspection	10%	10/20	15	In-House Only
Mortgage Loans secured by Rent-Stabilized Properties	Pass or Special Mention	Annual Full Inspection	5%	5/15	15	Third-Party or In-House
	Substandard or Doubtful	Annual Full Inspection	10%	10/20	15	In-House Only
<b>Protocol if Original Mortgage Loan Amount is Greater than \$6 million and up to \$30 million</b>						
(NOTE: When the inspection protocol below is based, in part, on the DSCR, the DSCR must be based on the most recent annual financial statement submitted to Fannie Mae. A Property with a most recent inspection rating of 4 or 5 must have an Annual Full Inspection, regardless of the DSCR test outlined below.)						
Mortgage Loan Type	Fannie Mae Mortgage Loan Rating	Inspection Frequency	Min % of Total Units to be Inspected <sup>1</sup>	Min/Max Number of Units to be Inspected <sup>2</sup>	Min Required Photos	Third-Party or In-House Inspector



PROPERTY INSPECTION PROTOCOL						
All Mortgage Loans other than Seniors Housing Mortgage Loans and Mortgage Loans secured by Rent Stabilized Properties	Pass or Special Mention; DSCR > 1.35	Full Inspection every 2 years; Annual Full Inspection if current year DSCR not available	5%	5/15	15	Third-Party or In-House
	Pass or Special Mention; DSCR < 1.35 or Co-op DSCR < 1.00	Annual Full Inspection	5%	5/15	15	Third-Party or In-House
	Substandard or Doubtful	Annual Full Inspection	10%	10/20	15	In-House Only
Seniors Housing Mortgage Loans	Pass or Special Mention	Annual Full Inspection	5%	5/15	15	Third-Party or In-House
	Substandard or Doubtful	Annual Full Inspection	10%	10/20	15	In-House Only
Mortgage Loans secured by Rent Stabilized Properties	Pass or Special Mention	Annual Full Inspection	5%	5/15	15	Third-Party or In-House
	Substandard or Doubtful	Annual Full Inspection	10%	10/20	15	In-House Only
All Maturing Mortgage Loans	All Ratings	Full Inspection due within the 12 months prior to Maturity Date <sup>1,2</sup>	Follow requirements for applicable Mortgage Loan type.			
<p style="text-align: center;"><b>Protocol if Original Mortgage Loan Amount is \$6 million or Less</b></p> <p style="text-align: center;">(NOTE: A Property with a most recent inspection rating of 4 or 5 must have an Annual Full Inspection. This does not apply to any Mortgage Loan with an original principal amount of less than \$750,000)</p>						



PROPERTY INSPECTION PROTOCOL						
Mortgage Loan Type	Fannie Mae Mortgage Loan Rating	Inspection Frequency	Min-% of Total Units to be Inspected <sup>1</sup>	Min/Max Number of Units to be Inspected <sup>2</sup>	Min Required Photos	Third-Party or In-House Inspector
All Mortgage Loans other than Seniors Housing Mortgage Loans and Mortgage Loans secured by Rent-Stabilized Properties	Pass or Special Mention, and original Mortgage Loan amount < \$750,000	Walk Around every 5 years	N/A	N/A	10	Third-Party or In-House
	Pass or Special Mention, and original Mortgage Loan amount ≥ \$750,000	Full Inspection every 2 years	5%	2/5	10	Third-Party or In-House
	Substandard or Doubtful	Annual Full Inspection	10%	2/5	10	In-House Only
Seniors Housing Mortgage Loans	Pass or Special Mention	Annual Full Inspection	5%	5/15	15	Third-Party or In-House
	Substandard or Doubtful	Annual Full Inspection	10%	10/20	15	In-House Only
Mortgage Loans secured by Rent-Stabilized Properties	Pass or Special Mention	Annual Full Inspection	5%	5/15	15	Third-Party or In-House
	Substandard or Doubtful	Annual Full Inspection	10%	10/20	15	In-House Only
All Maturing Mortgage Loans	All Ratings	Full Inspection due within 12 months prior to Maturity Date <sup>3</sup>	Follow requirements for applicable Mortgage Loan type.			



## PROPERTY INSPECTION PROTOCOL

1 The number of units to be inspected based on the Minimum Percentage Requirement should not exceed the Maximum Number of Units.

2 For a Property with 10 units or less, the minimum number of units to be inspected is 2 units. This minimum unit count is for occupied and vacant units. If the Property contains any “down” units, then all “down” units must be inspected in addition to the occupied and vacant units.

3 If the next scheduled inspection due date for a Property is less than six months prior to the Maturity Date, then the next scheduled inspection due date shall be that date which is six months prior to the Maturity Date.

NOTE: If a Property consists of Non-Contiguous Parcels or scattered sites:

- all buildings on each separate parcel or site must be inspected;
- the total required number of units based on the above protocol must be allocated among each parcel in approximately the same proportion as the number of units at each parcel to the total number of units at the Property; and
- the units to be inspected at each parcel must be selected randomly, according to the above inspection protocol.

### 502.04 Property Inspection Frequency; Submission of Property Inspection Forms

#### 502.04A Timing of Property Inspections

Property inspections must be performed at the frequency per Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocols, and must be completed in sufficient time for the Property inspection form to be submitted by the “Submission Due Date”.

To facilitate more efficient scheduling of the physical inspections for Properties, the Servicer may request an extension of up to 60 days from the “Submission Due Date”. The extension request will be automatically approved so long as:

- it is submitted prior to the original “Submission Due Date” by using the “Modification Request” tab within the particular work item in the MAMP;
- an extension was not already granted for the same Property inspection requirement;
- the Mortgage Loan is not rated Substandard or Doubtful, nor has a Property condition rating of:
  - 4 or 5 on the most recent inspection; or
  - 3 on an inspection more than one year old; and
- the extended “Submission Due Date” is not within the 6



months prior to the Maturity Date.

**502.04B** Submission of Property Inspection Forms

All Property inspection forms must be submitted to Fannie Mae through the MAMP. Origination inspections must be submitted within 45 days after the date the Mortgage Loan was purchased by Fannie Mae. Thereafter, each required Property inspection form must be submitted within 60 days after the date of the actual Property inspection, and no later than the “Submission Due Date” shown in the MAMP, unless an extension was granted by Fannie Mae. The Servicer must resolve any issues identified by Fannie Mae during its review of the Property inspection reports in a timely manner.

**502.05** Property Inspector Qualifications

**502.05A** Minimum Inspector Experience

Inspections must be performed by either a qualified third party or Servicer staff as specified in the Property Inspection Protocol table in Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocols. The Servicer is responsible for ensuring that the inspector has at least the minimum level of experience required to conduct a Fannie Mae inspection. At a minimum, the inspector must have completed an acceptable “Property Inspection Risk Management” course or other acceptable training course, including the courses provided by the MBA, and must have previous inspection experience as follows:

Mortgage Loan Rating	Minimum Previous Inspection Experience
Pass and Special Mention Mortgage Loans (except Seniors Housing Mortgage Loans)	10 multifamily property inspections
Substandard and Doubtful Mortgage Loans (except Seniors Housing Mortgage Loans)	25 multifamily property inspections
Seniors Housing Mortgage Loans	10 Seniors Housing property inspections





## 502.05B Third-Party Inspector Requirements

If the Property Inspection Protocol table in Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocols permits a third-party inspector, the third-party inspector cannot reassign responsibilities to another person or entity without the Servicer's approval. Any third-party inspector must:

- have no financial interest in the Property to be inspected;
- demonstrate experience in multifamily real estate property inspections;
- be experienced in the market in which the Property is located; and
- either:
  - possess a professional certification from any one of the following:
    - Real Estate Assessment Center for HUD as a Certified Home Inspector;
    - American Society of Home Inspectors ("ASHI");
    - International Association of Certified Home Inspectors ("InterNACHI"); or
    - State-certified home inspector;
  - be a registered architect;
  - be a civil engineer; or
  - have successfully completed an acceptable in-person training course in lieu of the above. (Note: On-line attendance at such course is not acceptable.) Acceptable training courses include the Fannie Mae approved inspection course provided by the MBA.

Fannie Mae reserves the right, in its sole discretion, to notify the Servicer that a third-party inspection firm is no longer acceptable to Fannie Mae.

## 502.06 Content of Property Inspections

### 502.06A Number of Units to be Inspected; "Down" Units



The requirements specified in the **Property Inspection Protocol** table in **Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocols** are minimum numbers of occupied and vacant units that must be inspected. In addition to occupied and vacant units, all “down” units (i.e., units that are not rentable at the current time, or that cannot be rented in the normal course of business) must be inspected as part of the **Property** inspection. If the **Property** inspector notes substantial physical concerns that warrant further investigation, the **Servicer** must determine whether it is prudent to inspect additional units over and above the number of units required to be inspected.

#### **502.06B** Selection of Units to be Inspected

The **MAMP** will indicate, for each **Property**, the number of units required to be inspected. When units are required to be inspected, the **Servicer** must determine the appropriate combination of vacant and occupied units for inspection. The units selected for inspection must meet the following requirements:

- a minimum of 50% of all units inspected must be vacant units (if available);
- at least 2 occupied units must be inspected; and
- if selected, the interior of each unit must be inspected.

The **Property** inspector, not the **Property** manager, must select which vacant and occupied units will be inspected.

#### **502.06C** Photographs

The **Property Inspection Protocol** table in **Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocols** indicates, for each **Asset Class**, the minimum number of photographs required to be submitted with the **Property** inspection form. Such photographs must include views and identifying captions of:

- signage;
- typical building front;
- site office and clubhouse (if applicable);
- **Property** frontage;
- apartment interior;



- amenities;
- major building systems;
- deferred maintenance and life safety items;
- extraordinary repair items or items requiring capital expenditure; and
- all critical or substantial issues noted in the inspection report.

#### **502.06D** Consultation with Property Manager and Staff

For Property inspections other than walk-around inspections, the Servicer must interview the Property manager and other on-site staff to obtain information regarding the Property's condition and performance, and to confirm that any life/safety repair and deferred maintenance items noted on the most recent Property inspection have been corrected.

#### **502.06E** Analysis of Market

The Servicer must evaluate the neighborhood, submarket, and market in which the Property is located to determine material shifts in demographics and real estate conditions. The Servicer must also evaluate competitive properties to determine any changes in the competitive position of the Property since the initial underwriting or the most recent Property inspection.

#### **502.06F** Analysis of Collateral

If the Servicer determines that repair or maintenance is required, the Servicer must notify the Borrower according to the notice provisions of the Loan Documents. The notice must:

- be sent within 45 days from the date of the actual inspection;
- identify the repair or maintenance issues;
- include any accompanying photos; and
- direct the Borrower to undertake timely corrective actions to remedy the issues.

The Servicer must follow-up until the work has been successfully completed. If the Borrower fails to perform all repairs or



maintenance required by the **Servicer** within a specified period of time, the **Servicer** must notify **Multifamily Inspections** in writing with a recommendation for resolution.

The **Property** inspection overall rating must be set to 4 (or 5 depending on severity or other existing issues), if:

- a casualty loss causes damage in an amount equal to the lesser of (i) 25% of the current **UPB**, or (ii) \$1,000,000; or
- 10% or more of the units are down due to any reason.

Setting the rating to 4 (or 5, as applicable) will not automatically put the **Mortgage Loan** on Fannie Mae's **Watchlist**, nor will it trigger the requirement (i) for an **Action Plan**; or (ii) to reinstate the **Replacement Reserve**, as long as:

- no other performance related issues otherwise increase the credit risk; and
- the **Servicer** expects sufficient insurance proceeds will be available to restore the **Property** to its original condition.

If Fannie Mae determines that a **Property** inspection is inadequate, Fannie Mae reserves the right to require a new **Property** inspection be performed by either the **Servicer** or a third party designated by Fannie Mae at the expense of the **Servicer**.

## **502.06G** Life Safety Issues

If the inspection is conducted by a third-party inspector and reveals any **Property** life safety issues, the inspection firm must notify the **Servicer** of such issues within 3 **Business Days** after completion of the inspection.

## **502.07** Servicer Property Inspection Quality Control Requirements

### **502.07A** Review of Inspection Forms

All **Property** inspection forms, whether prepared by third parties or by the **Servicer**, must be reviewed internally by the **Servicer** prior to submission to Fannie Mae.

### **502.07B** Quality Control Program



**502.08** Retention of Inspection Forms

**502.09** Other Property Inspections; Inspection Fees

**502.08** Retention of Inspection Forms

All **Property** inspection forms must be maintained in the **Servicing File** for at least 2 inspection cycles and made available for verification by Fannie Mae upon request.

**502.09** Other Property Inspections; Inspection Fees

In addition to performing the **Property** inspections required in this Section, Fannie Mae, in its sole discretion, may require that the **Servicer** perform additional **Property** inspections whenever circumstances warrant. In addition, the **Servicer** is expected to perform **Property** inspections as part of its regular asset management responsibilities whenever the **Servicer** determines it prudent to do so.

The **Servicer** may charge the **Borrower** a reasonable fee for performing **Property** inspections provided that charging a fee:

- is permitted under the **Loan Documents** or another written agreement with the **Borrower**; and
- is not specifically precluded by Fannie Mae.

## **Section 503** Quarterly and Annual Financial Analysis of Operations

### **503.01** Electronic Reporting of Financial Analysis of Operations

The **Servicer** must submit quarterly and annual Financial Analysis of Operations reports (Form 4254) to Fannie Mae for each **Property** in accordance with the requirements of this Section. All reports are found on, and must be submitted electronically through, the **MAMP**.

### **503.02** Request for Waivers of Quarterly and Annual Reporting on Financial Analysis of Operations

#### **503.02A** Waivers for Reasons Other Than Unresponsive Borrowers

The **Servicer** must submit a waiver through the **MAMP** for



each **Property** if a Financial Analysis of Operations (Form 4254 or Form 4254.Seniors) is required by this Section, and:

- the **Mortgage Loan** was purchased from a **Lender** whose **Lender Contract** specifies that the collection of **Property** operating statements for any **Mortgage Loan** is not required;
- the **Loan Documents** either do not permit the **Lender** to collect, or require the **Borrower** to submit, financial reports; or
- the **Mortgage Loan**:
  - was liquidated in the current quarter (for waivers of quarterly reporting) or year (for waivers of annual reporting), prior to the Financial Analysis of Operations submission deadline;
  - was delivered under a **Forward Commitment** and has not yet converted to a permanent loan;
  - was defeased;
  - is subject to **FHA** or **HUD** risk sharing;
  - is being managed by Fannie Mae's **Special Asset Management**; or
  - was acquired by Fannie Mae in the current reporting year and less than 6 months of operating data is available for the **Property**.

### **503.02B** Waivers due to Unresponsive Borrowers

If the **Servicer** is unable to submit an annual or quarterly Financial Analysis of Operations (Form 4254 or Form 4254.Seniors) report for a **Property** because the **Borrower** failed to provide the requested operating statements, before submitting a waiver request, the **Servicer** should:

- for the annual Financial Analysis of Operations, wait until 6 months have passed from the submission due date to submit a waiver request in the **MAMP**; and
- for a quarterly Financial Analysis of Operations, wait until the following quarterly submission due date to submit a waiver request in the **MAMP**.



Delaying the submission of the waiver request will provide additional time to obtain and submit the operating statement data, if received. If the Borrower fails to respond to at least 3 written requests within the applicable waiting period specified above, the waiver request should then be submitted, with the following condition:

“Unresponsive Borrower – The Borrower was contacted in writing at least 3 times and failed to provide the requested operating statements.”

Fannie Mae will review the waiver requests, and will notify the Servicer if additional information is required. If quarterly or annual operating statements are received after a waiver has been granted, the Servicer must submit the Financial Analysis of Operations report (Form 4254 or Form 4254.Seniors) upon receipt of such operating data.

### 503.03 Quarterly Reporting on Financial Analysis of Operations

#### 503.03A Quarterly Reporting Requirements

The Servicer must submit detailed quarterly operating statements for each Property, normalized to account for any seasonal variations in income and expenses, in accordance with the requirements set forth for each Asset Class in the tables below. The reports must be submitted through the MAMP. All submitted operating statements will undergo automated quality control testing, and any quality control issues identified must be resolved timely.

The quarterly operating statements must reflect the actual physical occupancy level for the Property as of the end of each quarter, based on the most recently available rent roll. When quarterly reports are required, the Servicer must provide actual expenses, and must normalize certain expense items, including, but not limited to, real estate taxes, casualty insurance, Replacement Reserves and management fees, consistent with the guidance provided in the MAMP for submitting annual financial statements. The Servicer must explain any seasonal data discrepancies, and provide comments if any of the following are observed:

- a variance of greater than 20% from the same reporting period in the prior year of any of Effective Gross Income, total operating expenses, Gross Potential Rent, Private Pay, Medicare/Medicaid, Repairs and Maintenance, Utilities, Water and Sewer, Real Estate Taxes and Property





Insurance;

- a variance in physical occupancy of greater than 10% from the immediately preceding reporting period;
- a change in the Property's tax-exempt status (if applicable);
- a change in the required P&I payments during a reporting period (e.g., interest only to amortizing);
- management fees of less than 3%;
- a change in any other pertinent information related to the Property financial analysis; or
- the Mortgage Loan is on the Fannie Mae Watchlist.

Quarterly financial reporting is not required, and no waiver need be submitted, for any Mortgage Loan if it is secured by a Cooperative Property, or it is a Small Mortgage Loan, unless such Cooperative Property or Small Mortgage Loan is on the Fannie Mae Watchlist.

**503.03B** Quarterly Submission Requirements by Asset Class

1. All Asset Classes (except Seniors Housing Properties, Watchlist Properties, Credit Facilities, and Bulk Deliveries). The Servicer must submit detailed quarterly operating statements 75 days after the end of the second and third quarters, as set forth below.

All Asset Classes except Seniors Housing, Watchlist Properties, Credit Facilities, and Bulk Deliveries			
		Required Information	
Quarter	Due Date*	Property with a 12/31 Fiscal Year End	Property with other than a 12/31 Fiscal Year End
Second	September 15	Financial operating statements for the period from January 1 through June 30	6-months year to date operating data



<b>All Asset Classes except Seniors Housing, Watchlist Properties, Credit Facilities, and Bulk Deliveries</b>			
		<b>Required Information</b>	
<b>Quarter</b>	<b>Due Date*</b>	<b>Property with a 12/31 Fiscal Year End</b>	<b>Property with other than a 12/31 Fiscal Year End</b>
Third	December 15	Financial operating statements for the period from January 1 through September 30	9 months year to date operating data
*If any due date is not a Business Day, then the submission may be made on the next Business Day.			

2. Seniors Housing Properties. For Seniors Housing Properties, the Servicer must submit detailed quarterly operating statements 75 days after the end of the first, second, third and fourth quarters, as set forth below.

<b>Seniors Housing Properties</b>			
		<b>Required Information</b>	
<b>Quarter</b>	<b>Due Date*</b>	<b>Property with a 12/31 Fiscal Year End</b>	<b>Property with other than a 12/31 Fiscal Year End</b>
First	June 15	Financial operating statements for the period from January 1 through March 31	Trailing 3 months operating data



Seniors Housing Properties			
		Required Information	
Quarter	Due Date*	Property with a 12/31 Fiscal Year End	Property with other than a 12/31 Fiscal Year End
Second	September 15	Financial operating statements for the period from April 1 through June 30	Trailing 3 months operating data
Third	December 15	Financial operating statements for the period from July 1 through September 30	Trailing 3 months operating data
Fourth	March 15	Financial operating statements for the period from October 1 through December 31	Trailing 3 months operating data
*If any due date is not a Business Day, then the submission may be made on the next Business Day.			

3. Watchlist Properties. For Watchlist Properties (including any Mortgage Loan secured by a Cooperative Property or any Small Mortgage Loans), the Servicer must submit detailed quarterly operating statements 90 days after the end of the first quarter, and 75 days after the end of the second and third quarters, as set forth below.



<b>Watchlist Properties</b>			
		<b>Required Information</b>	
<b>Quarter</b>	<b>Due Date*</b>	<b>Property with a 12/31 Fiscal Year End</b>	<b>Property with other than a 12/31 Fiscal Year End</b>
First	June 30	Financial operating statements for the period from January 1 through March 31	3 months year-to-date operating data
Second	September 15	Financial operating statements for the period from January 1 through June 30	6 months year-to-date operating data
Third	December 15	Financial operating statements for the period from January 1 through September 30	9 months year-to-date operating data

\*If any due date is not a Business Day, then the submission may be made on the next Business Day.

**4. Credit Facilities and Bulk Deliveries.** For Credit Facilities and Bulk Deliveries, the Servicer must submit both the detailed quarterly operating statements and the Deal Level Structured Transaction (BD/CF) Quarterly report, including the Structured Facilities Monitoring Narrative (Form 4801), Spreadsheet (Form 4802), and any other relevant documents, 75 days after the end of the first, second, third, and fourth quarters, as set forth below.



<b>Credit Facility and Bulk Delivery Properties</b>			
		<b>Required Information</b>	
<b>Quarter</b>	<b>Due Date*</b>	<b>Property with a 12/31 Fiscal Year End</b>	<b>Property with other than a 12/31 Fiscal Year End</b>
<b>First</b>	<b>June 15</b>	Financial operating statements for the period from January 1 through March 31, and deal level reports	Trailing 3 months operating data
<b>Second</b>	<b>September 15</b>	Financial operating statements for the period from April 1 through June 30, and deal level reports	Trailing 3 months operating data
<b>Third</b>	<b>December 15</b>	Financial operating statements for the period from July 1 through September 30, and deal level reports	Trailing 3 months operating data



Credit Facility and Bulk Delivery Properties			
		Required Information	
Quarter	Due Date*	Property with a 12/31 Fiscal Year End	Property with other than a 12/31 Fiscal Year End
Fourth	March 15	Financial operating statements for the period from October 1 through December 31, and deal level reports	Trailing 3 months operating data
*If any due date is not a Business Day, then the submission may be made on the next Business Day.			

**503.04** Annual Reporting on Financial Analysis of Operations

The **Servicer** must submit a Financial Analysis of Operations (Form 4254 or Form 4254.Seniors) annually to Fannie Mae for each **Property** for the previous calendar year or, if applicable, for the fiscal year ending in the previous calendar year.

**503.04A** Annual Financial Analysis Reporting Requirements

The **Servicer** must submit detailed operating statements for each **Property**, normalized to account for any seasonal variations in income and expense. The annual operating statements must reflect the actual physical occupancy rate for the **Property** as of the end of the reporting period, based on the most recent available rent roll. The **Servicer** must provide actual expenses and must also normalize certain expense items, including, but not limited to, real estate taxes, property casualty insurance, **Replacement Reserves**, and property management fees. The **Servicer** must provide comments if any of the following are observed:

- a variance of greater than 20% from the prior year of any of **Effective Gross Income**, total operating expenses, **Gross**



Potential Rent, Private Pay, Medicare/Medicaid, Repairs and Maintenance, Utilities, Water and Sewer, Real Estate Taxes and Property Insurance;

- a variance in physical occupancy of greater than 10% from the reporting period immediately preceding the current reporting period;
- a change in the Property's tax-exempt status (if applicable) during the year;
- a change in the required P&I payments during the year (e.g., interest-only to amortizing);
- management fees of less than 3%;
- a change in any other pertinent information related to the Property financial analysis; or
- the Mortgage Loan is on the Fannie Mae Watchlist.

#### **503.04B** Submitting the Annual Financial Analysis of Operations

The following steps must be taken to complete and submit the annual Financial Analysis of Operations report (Form 4254 or Form 4254.Seniors) to Fannie Mae:

1. For a Mortgage Loan purchased by Fannie Mae on or before June 30 in any given year, the Annual Financial Analysis of Operations (Form 4254 or Form 4254.Seniors) covering that first year must be submitted to Fannie Mae by June 1 of the following year, and the Servicer must annualize the available operating data to represent a full 12 months of operations. If the Mortgage Loan was purchased by Fannie Mae on or after July 1 in any given year, the Servicer is not required to submit an annual Financial Analysis of Operations (Form 4254 or Form 4254.Seniors) until June 1 of the second year after purchase in order to collect 12 months of actual operating data.

For all subsequent years, the Servicer must submit an annual operating statement for each Property to Fannie Mae on or before June 1 or, if applicable, within 150 days following the fiscal year end for any Property owned by a Borrower with a non-calendar fiscal year. For any Borrower with a non-calendar fiscal year, the Servicer must submit a data change request through the MAMP requesting a change to the Borrower's fiscal year end.

2 The Servicer must analyze the operating statements submitted by the Borrower in accordance with the Multifamily Analysis





of Operations Form 4254 and Form 4254.Seniors Line Item Definitions (Form 4254.DEF), which is located at <https://multifamily.fanniemae.com> or the MAMP. The Servicer must indicate on the Borrower's operating statements the line item under which each of the Borrower's income and expense line items is included.

3. For each Property, the Servicer must access the MAMP and provide the pertinent income, expense, and other required data for the current reporting period. All submitted operating statements will undergo automated quality control testing, and any issues must be resolved timely.

#### 503.04C Annual Review

Fannie Mae will notify the Servicer which Mortgage Loans are subject to the annual review. Within 15 Business Days after receiving notice, the Servicer must submit through the MAMP for each Mortgage Loan under review:

- the Borrower's operating statements, with each income and expense line item coded by the Servicer according to the line item definitions in the Multifamily Analysis of Operations Form 4254 and Form 4254.Seniors Line Item Definitions (Form 4254.DEF);
- an escrow activity reconciliation of the Borrower's operating statement data; and
- any other documentation requested by Fannie Mae.

#### 503.04D Asset Management Testing

The Multifamily Asset Management team tests compliance with many areas of the Asset Management process to ensure Servicers are properly adhering to Fannie Mae's requirements. Testing results are communicated through the Lender Assessment process, and recommendations, requirements for corrective action, or best practice enhancements are proposed and monitored through completion.

#### 503.04E Maintenance of Records

The Servicer must maintain the Borrower's operating statements and reconciliation for the life of the Mortgage Loan.

### Section 504 Compliance with Loan Agreement Requirements



## 504.01 General

The **Servicer** must ensure that the **Borrower** and any guarantor are in compliance with the **Loan Documents**. For all **Mortgage Loans**, the **Servicer** must:

- confirm that the **Borrower** complied with all quarterly and annual reporting requirements, which are primarily set out in Article 8 of the Multifamily Loan Agreement (**Form 6001 series**); and
- review all information required by the **Loan Documents** to be furnished by the **Borrower**.

To assist in compiling the financial records and other items required to be furnished by the **Borrower**, the **Servicer** may use the **Annual Loan Agreement Certification (Form 6620 series)**.

## 504.02 Obtaining Required Financial and other Reporting Items

### 504.02A Notice to the Borrower

At the end of each fiscal year, the **Servicer** must send the **Borrower**, and all guarantors on a **Mortgage Loan**, a list of the financial reports required to be submitted and certified by each **Borrower** and guarantor. The list must be delivered in sufficient time to allow submission to the **Servicer** of the certified financial reports within 45 days after the end of each fiscal quarter, and 120 days after the end of each fiscal year.

### 504.02B Annual Reporting of Guarantor Financial Condition

Fannie Mae will provide the **Servicer** with an annual list of all **Mortgage Loans** for which the **Servicer** must submit the financial records and other required items for the past fiscal year by, or on behalf of, each guarantor of the **Mortgage Loan**. The guarantor financial information must be submitted through the **MAMP**, or as otherwise directed by Fannie Mae, by the June 1 deadline required for the annual Financial Analysis of Operations reports (**Form 4254**) for each **Property**. If Fannie Mae determines increased credit risk for a **Mortgage Loan** not on the initial list provided to the **Servicer**, Fannie Mae may ask for the submission of the associated guarantor financial records at any other time during the year.



#### 504.02C Failure of Borrower to Provide Required Guarantor Financial Reporting

The Lender must use its best efforts to obtain the required financial reports for any guarantor not included on Fannie Mae's list of Mortgage Loans for which the Servicer must submit the financial records of each guarantor of the Mortgage Loan.

For all Mortgage Loans included on Fannie Mae's list, the Servicer must contact Fannie Mae immediately upon the occurrence of any of the following events:

- the Borrower is unable to submit the required guarantor financial reports and other items by the date required in the Loan Documents;
- the Borrower or guarantor is unable to certify that each financial report is true, complete, and accurate in all material respects; or
- the Servicer believes the financial reports and other items are, inaccurate or misleading in any material way.

Upon the occurrence of any of the foregoing events, the Servicer must notify the Borrower, and the Borrower or guarantor shall have an additional 30 days after receipt of such written notice to deliver to the Servicer all required financial reports and other items, properly certified by the Borrower or guarantor. If the Servicer determines that the Borrower or guarantor is diligently attempting to deliver all required financial reports and other items, this 30 day period may be extended by the Servicer for up to an additional 30 days.

If the Borrower or a guarantor fails to (i) submit all required financial reports and other items, properly certified by the Borrower or guarantor, within the above time frame; or (ii) respond to at least 3 written requests for the delivery of the required information, the Servicer must request a waiver through the MAMP for the Borrower, or Multifamily Operating Statements for the guarantor. The Servicer must provide copies of all correspondence between the Servicer and the Borrower or any guarantor related to this matter to Fannie Mae.

#### 504.02D Lender Review of Required Financial Reporting

The Servicer must promptly review all information submitted by the Borrower or guarantor. If the Servicer determines that no additional follow-up is required, the Servicer must submit the certified



material for the **Borrower** and guarantors requested by Fannie Mae through the **MAMP**, or as otherwise directed by Fannie Mae. The **Servicer** must also place that material, and the financial information for any other guarantor received by the **Servicer**, along with any explanatory schedules, in its **Servicing File**.

If the **Servicer** determines that additional follow-up is required to explain any submitted material, or that additional or supporting information is required (e.g., for a **Lender** using the **Form 6620 series**, a required item the **Borrower** failed to attach to the submission, or an item to which the **Borrower** failed to certify), the **Servicer** must contact the **Borrower** or guarantor promptly to request additional information. Once the additional or resubmitted information is received, the **Servicer** must submit a copy of all financial reporting, explanatory schedules, and other supporting information furnished by the **Borrower** and guarantor to the **MAMP** for the **Borrower**, or to **Multifamily Operating Statements** for the guarantor.

#### **504.02E** Maintenance of Annual Financial Reporting Records

The **Servicer** must retain the original of all financial records, certifications, and related information furnished by the **Borrower** or guarantor (including each Annual Loan Agreement Certification, if used by the **Servicer**, and any explanatory schedules) in its **Servicing File**.

### **Section 505** OFAC Compliance

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The **Servicer** must maintain effective **OFAC** compliance procedures including, but not limited to:

- screening all **Persons** previously identified per **Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance** at least monthly to confirm that none are sanctioned or blocked by **OFAC**; and
- reporting any sanctioned or blocked **Person** to **Lender Risk Management** within 24 hours.



## Chapter 5

## Surveillance

### Section 501

#### Generally

##### Requirements

You must:

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

### Section 502

#### Property Inspections

##### 502.01 Forms

##### Requirements

For all Property inspections, you must use

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

For a Green Rewards Mortgage Loan, you must also submit the Green Rewards Verification Inspection Form (Form 4221) per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 408.031: Green Rewards Efficiency Measure Verification.

##### Operating Procedures

On the MBA Standard Inspection Form, you must:

1. Select the “Fannie Mae Inspection” option on the Tools tab.
2. Complete the following tabs:



- “General Information”;
- “Physical Condition & Deferred Maintenance”;
- “Photos”;
- “Rent Roll”;
- “Management Interview”;
- “Multifamily”;
- “Fannie Mae Assessment Addendum”; and
- “Senior Supplement”, for Seniors Housing Properties.

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

## **502.02** Property Condition Concerns

### Operating Procedures



If the Property has...	You must...
<ul style="list-style-type: none"><li>• <u>an inspection rating of 4 or 5 per the Fannie Mae Assessment Addendum tab of the MBA Standard Inspection Form;</u></li><li>• <u>incomplete repairs per the specified timing in the Loan Documents;</u></li><li>• <u>significant deferred maintenance; or</u></li><li>• <u>non-significant deferred maintenance that was not corrected within 12 months after notifying the Borrower.</u></li></ul>	<ul style="list-style-type: none"><li>• <u>Inform Multifamily Inspections and Multifamily Loss Mitigation:</u><ul style="list-style-type: none"><li>- <u>promptly after receiving notice of any Life Safety Issues per Life Safety Issues (18106); or</u></li><li>- <u>otherwise within 10 Business Days after becoming aware.</u></li></ul></li><li>• <u>Reinstate any suspended Completion/Repair Escrow or Replacement Reserve if the Property inspection rating is 4 or 5, unless the rating resulted from a casualty loss (see Collateral Analysis (18101)).</u></li><li>• <u>Inspect the Property as necessary to ensure the Borrower resolves any deferred maintenance.</u></li><li>• <u>Regardless of whether the Mortgage Loan is on a Watchlist, submit a request to Multifamily Loss Mitigation before ordering a PCA (excluding regularly-scheduled PCAs required per the Loan Documents).</u></li><li>• <u>Identify the appropriate Fannie Mae risk rating per Part V, Chapter 6: Watchlist Management.</u></li></ul>

### 502.03 Property Inspection Protocol

#### ➔ Guidance

Property inspection frequency is based on

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





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

Operating Procedures

<u>Property Inspection Protocol</u>						
<u>If the original Mortgage Loan Amount is greater than \$30 million...</u>						
<u>Type</u>	<u>Fannie Mae Risk Rating</u>	<u>Inspection Frequency</u>	<u>Number of Units to Inspect</u>		<u>Minimum # of Photos</u>	<u>Inspector</u>
			<u>%</u>	<u>Min/Max</u>		
<u>All Mortgage Loans</u>	<ul style="list-style-type: none"> <li>• <u>Pass</u>,</li> <li>• <u>Pass-Watch</u>, or</li> <li>• <u>Special Mention</u></li> </ul>	<u>Annual</u>	<u>5%</u>	<u>5/15</u>	<u>15</u>	<ul style="list-style-type: none"> <li>• <u>Third-Party</u>, or</li> <li>• <u>In-House</u></li> </ul>
	<u>Substandard</u>	<u>Annual</u>	<u>10%</u>	<u>10/20</u>	<u>15</u>	<u>In-House Only</u>
<u>If the original Mortgage Loan Amount is greater than \$6 million and less than or equal to \$30 million...</u>						
<u>NOTE: DSCR is per the most recent annual financial statement submitted to Fannie Mae.</u>						
<u>Type</u>	<u>Fannie Mae Risk Rating</u>	<u>Inspection Frequency</u>	<u>Number of Units to Inspect</u>		<u>Minimum # of Photos</u>	<u>Inspector</u>
			<u>%</u>	<u>Min/Max</u>		
<u>Most Recent Inspection rating of 4 or 5</u>	<u>All Ratings</u>	<u>Annual</u>	<u>10%</u>	<u>10/20</u>	<u>15</u>	<u>In-House Only</u>
<ul style="list-style-type: none"> <li>• <u>Seniors Housing</u>, or</li> <li>• <u>Rent-Stabilized</u></li> </ul>	<ul style="list-style-type: none"> <li>• <u>Pass</u>,</li> <li>• <u>Pass-Watch</u>, or</li> <li>• <u>Special Mention</u></li> </ul>	<u>Annual</u>	<u>5%</u>	<u>5/15</u>	<u>15</u>	<ul style="list-style-type: none"> <li>• <u>Third-Party</u>, or</li> <li>• <u>In-House</u></li> </ul>
	<u>Substandard</u>	<u>Annual</u>	<u>10%</u>	<u>10/20</u>	<u>15</u>	<u>In-House Only</u>
<u>Maturing</u>	<u>All Ratings</u>	<u>Within 12 months before Maturity Date</u>	<u>Per applicable Mortgage Loan type.</u>			



Property Inspection Protocol						
All Others	<ul style="list-style-type: none"> <li>• Pass, Pass-Watch, or Special Mention; and</li> <li>• DSCR &gt; 1.35, or Cop DSCR &gt; 1.00.</li> </ul>	<ul style="list-style-type: none"> <li>• Every 2 years; or</li> <li>• Annual if required annual Operating Statement not received.</li> </ul>	5%	5/15	15	<ul style="list-style-type: none"> <li>• Third-Party, or</li> <li>• In-House</li> </ul>
	<ul style="list-style-type: none"> <li>• Pass, Pass-Watch, or Special Mention; and</li> <li>• DSCR &lt; 1.35, or Cop DSCR &lt; 1.00.</li> </ul>	Annual	5%	5/15	15	<ul style="list-style-type: none"> <li>• Third-Party, or</li> <li>• In-House</li> </ul>
	Substandard	Annual	10%	10/20	15	In-House Only
If the original Mortgage Loan Amount is \$6 million or less...						
NOTE: If the Property has 10 units or less, at least 2 units must be inspected.						
Type	Fannie Mae Risk Rating	Inspection Frequency	Number of Units to Inspect		Minimum # of Photos	Inspector
			%	Min/Max		
Most Recent Inspection rating of 4 or 5 (unless Delivered Mortgage Loan Amount was less than \$750,000)	All Ratings	Annual	10%	10/20	15	In-House Only
<ul style="list-style-type: none"> <li>• Seniors Housing, or</li> <li>• Rent-Stabilized</li> </ul>	<ul style="list-style-type: none"> <li>• Pass, Pass Watch, or</li> <li>• Special Mention</li> </ul>	Annual	5%	5/15	15	<ul style="list-style-type: none"> <li>• Third-Party, or</li> <li>• In-House</li> </ul>
	Substandard	Annual	10%	10/20	15	In-House Only
Maturing	All Ratings	Within 12 months before Maturity Date	Per applicable Mortgage Loan type.			



Property Inspection Protocol						
All Others	<ul style="list-style-type: none"> <li>• <u>Pass, Pass-Watch, or Special Mention;</u> and</li> <li>• <u>Delivered Mortgage Loan Amount &lt; \$750,000.</u></li> </ul>	<u>Walk Around every 5 years</u>	<u>N/A</u>	<u>N/A</u>	<u>10</u>	<ul style="list-style-type: none"> <li>• <u>Third-Party, or</u></li> <li>• <u>In-House</u></li> </ul>
	<ul style="list-style-type: none"> <li>• <u>Pass, Pass-Watch, or Special Mention;</u> and</li> <li>• <u>Delivered Mortgage Loan Amount &gt; \$750,000.</u></li> </ul>	<u>Every 2 years</u>	<u>5%</u>	<u>2/5</u>	<u>10</u>	<ul style="list-style-type: none"> <li>• <u>Third-Party, or</u></li> <li>• <u>In-House</u></li> </ul>
	<u>Substandard</u>	<u>Annual</u>	<u>10%</u>	<u>2/5</u>	<u>10</u>	<u>In-House Only</u>

## 502.04 Scheduling and Submissions

### 502.04A Scheduling

#### Operating Procedures

You must:

- ensure Property inspections are performed per Property Inspection Protocol (18011); and
- allow enough time to submit the Property inspection form by the MAMP submission due date.

#### Guidance

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

- you request it before the original submission due date using the “Modification Request” tab within the MAMP;



- the Fannie Mae risk rating is not Substandard;
- the most recent Property inspection rating is:
  - 1 or 2; or
  - 3 if the inspection is less than 1 year old; and
- the extended MAMP submission due date is at least 6 months before the Maturity Date.

## **502.04B** Submissions

### Operating Procedures

You must:

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

### Guidance

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

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

## **502.05** Property Inspectors

### **502.05A** Qualifications

#### Requirements



You must ensure any inspector:

- Meets 1 of the following:

1. Is certified by the:

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

2. Is a:

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

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

- Has the following minimum experience:

<u>Type</u>	<u>Minimum Inspection Experience</u>
<u>Senior Housing Mortgage Loans</u>	<u>10 seniors housing property inspections</u>
<u>Substandard Fannie Mae Risk Rating</u>	<u>25 multifamily property inspections</u>
<u>All Others</u>	<u>10 multifamily property inspections</u>

## **502.05B** Third Parties

- Requirements

Any third-party inspector must:

- have no financial interest in the inspected Property;



- have experience in the [Property's](#) market; and
- not reassign responsibility to another [Person](#) without your approval.

➔ [Guidance](#)

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

## **502.06** [Content](#)

### **502.06A** [Unit Selection](#)

#### [Operating Procedures](#)

When selecting units:

- The inspector, not the [Property](#) manager, must select and inspect the interior of:
  - all “down” units (i.e., units that cannot currently be rented in the normal course of business);
  - at least the minimum, but no more than the maximum, number of occupied and vacant units per [Property Inspection Protocol \(18011\)](#); and
  - units where at least:
    - 50% are vacant (if existing); and
    - 2 are occupied.
- If substantial physical concerns exist, the inspector may inspect more than the maximum number of units per [Property Inspection Protocol \(18011\)](#).
- If a [Property](#) has [Non-Contiguous Parcels](#) or scattered sites, on each parcel or site:
  - inspect all buildings;
  - allocate the number of units to inspect in the same proportion as the total [Property](#) units; and
  - randomly select the units to be inspected.



## **502.06B** Photos

### Operating Procedures

You must submit at least the minimum number of photos per Property Inspection Protocol (18011) with the Property inspection form. The photos must include views and captions of the Property's

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

## **502.06C** Interviews

### Operating Procedures

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

- ascertain the Property's condition and performance; and
- confirm all life safety and deferred maintenance items per the most recent Property inspection were corrected.

## **502.06D** Market Analysis

### Operating Procedures

You must evaluate:

- the Property's neighborhood, submarket, and market to determine material shifts in economic and real estate conditions; and



- competitive properties to determine any changes in the Property's competitive position since
  - initial underwriting, or
  - the most recent Property inspection.

## **502.06E** Collateral Analysis

### Operating Procedures

If the Property needs repairs or maintenance:

Step	Activity	You must..
<u>1</u>	<u>Notify Borrower</u>	<ul style="list-style-type: none"><li>• <u>Within 45 days after the inspection date,</u><ul style="list-style-type: none"><li>- <u>identify the repair or maintenance issues,</u></li><li>- <u>include any photos, and</u></li><li>- <u>direct the Borrower to timely complete the work.</u></li></ul></li><li>• <u>Use Form 4830 if the Property inspection rating is 3, 4, or 5.</u></li></ul>
<u>2</u>	<u>Follow Up</u>	<ul style="list-style-type: none"><li>• <u>Follow up to ensure the Borrower responded and the work was successfully completed. If not:</u><ul style="list-style-type: none"><li>- <u>notify the Borrower;</u></li><li>- <u>notify Multifamily Inspections; and</u></li><li>- <u>include your resolution recommendation.</u></li></ul></li><li>• <u>Use Form 4831 or Form 4832 if the Property inspection rating is 3, 4, or 5.</u></li></ul>
<u>3</u>	<u>Set Rating</u>	<p><u>Set the Property inspection overall rating to 4 (or 5 depending on the severity or other existing issues) if:</u></p> <ul style="list-style-type: none"><li>• <u>10% or more of the units are down for any reason; or</u></li><li>• <u>there is casualty damage equal to</u><ul style="list-style-type: none"><li>- <u>25% of the current UPB, or</u></li><li>- <u>\$1 million.</u></li></ul></li></ul>

### Guidance





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

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

#### **502.06F** Life Safety Issues

##### Requirements

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

#### **502.07** Quality Control

##### **502.07A** Program

##### Requirements

You must:

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

##### **502.07B** Inspection Form Retention

##### Operating Procedures

You must



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

## **502.07C** Additional Inspections and Fees

### Guidance

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

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

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

## **Section 503** Financial Analysis of Operations

### **503.01** Reporting

#### Requirements

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

#### Operating Procedures

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

<u>Item</u>	<u>Activity</u>	<u>You must...</u>
<u>1</u>	<u>Verify</u>	<u>Verify the operating statements reflect the Property's actual physical occupancy based on the most recent quarter-end rent roll.</u>



Item	Activity	You must...
2	Provide	<p>Provide actual expenses, normalizing</p> <ul style="list-style-type: none"> <li>• for seasonal variations, and</li> <li>• certain expenses including, but not limited to,               <ul style="list-style-type: none"> <li>- real estate taxes,</li> <li>- property casualty insurance,</li> <li>- Replacement Reserves, and</li> <li>- property management fees.</li> </ul> </li> </ul>
3	Comment	<p>Comment if:</p> <ul style="list-style-type: none"> <li>• the Mortgage Loan is on Fannie Mae's Watchlist;</li> <li>or</li> <li>• there is a:               <ul style="list-style-type: none"> <li>- greater than 20% variance from the same reporting period in the prior year for (per Form 4254.DEF)                   <ul style="list-style-type: none"> <li>▪ Effective Gross Income,</li> <li>▪ total operating expenses,</li> <li>▪ Gross Potential Rent,</li> <li>▪ private pay,</li> <li>▪ Medicare/Medicaid,</li> <li>▪ repairs and maintenance,</li> <li>▪ utilities,</li> <li>▪ water and sewer,</li> <li>▪ real estate taxes, or</li> <li>▪ Property insurance;</li> </ul> </li> <li>- greater than 10% variance in physical occupancy from the immediately preceding reporting period;                   <ul style="list-style-type: none"> <li>- change in the Property's tax-exempt status;</li> <li>- change in the required P&amp;I payments during a reporting period (e.g., interest-only to amortizing);</li> <li>- property management fee less than 3%; or</li> <li>- relevant change in the Property's financial performance.</li> </ul> </li> </ul> </li> </ul>
4	Resolve	Timely resolve any quality control issues.

**503.02** Quarterly Financial Analysis of Operations



Requirements

<u>Fannie Mae Watchlist Status or Product</u>	<u>Reporting</u>
<u>Fannie Mae Watchlist Property (All Products)</u>	<u>You must submit detailed quarterly operating statements</u> <ul style="list-style-type: none"><li>• <u>90 days after the end of the first quarter, and</u></li><li>• <u>75 days after the end of the second and third quarters.</u></li></ul>
<u>Cooperative Property</u>	<u>No quarterly financial reporting or waiver required.</u>
<u>Small Mortgage Loan</u>	<u>No quarterly financial reporting or waiver required.</u>
<u>Seniors Housing Property</u>	<u>You must submit detailed quarterly operating statements 75 days after the end of every quarter.</u>
<u>Credit Facility or Bulk Delivery Property</u>	<u>You must submit the Deal Level Structured Transaction (BD/CF) Quarterly report 75 days after the end of every quarter, including the</u> <ul style="list-style-type: none"><li>• <u>detailed quarterly operating statements,</u></li><li>• <u>Structured Facilities Monitoring Narrative (Form 4801), and</u></li><li>• <u>Spreadsheet (Form 4802).</u></li></ul>
<u>All Others</u>	<u>You must submit detailed quarterly operating statements 75 days after the end of the second and third quarters.</u>

 Operating Procedures

You must adhere to the following due dates:



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

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



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

Credit Facility or Bulk Delivery Property			
<u>Reporting Quarter</u>	<u>Reporting Period</u>	<u>Reporting Due Date for Property with 12/31 Fiscal Year End</u>	<u>Reporting Due Date for Property with non-12/31 Fiscal Year End</u>
<u>First</u>	<u>Trailing 3 months operating data:</u> <ul style="list-style-type: none"> <li>• <u>Property level statements covering the 1st quarter; and</u></li> <li>• <u>Deal level Structured Facilities Monitoring Narrative and Spreadsheet (Form 4801 and Form 4802).</u></li> </ul>	<u>June 15</u>	<u>45 days after 1st quarter end</u>
<u>Second</u>	<u>Trailing 3 months operating data:</u> <ul style="list-style-type: none"> <li>• <u>Property level statements covering the 2nd quarter; and</u></li> <li>• <u>Deal level Structured Facilities Monitoring Narrative and Spreadsheet (Form 4801 and Form 4802).</u></li> </ul>	<u>September 15</u>	<u>45 days after 2nd quarter end</u>



Credit Facility or Bulk Delivery Property			
<u>Third</u>	<u>Trailing 3 months operating data:</u> <ul style="list-style-type: none"> <li>• <u>Property level statements covering the 3rd quarter; and</u></li> <li>• <u>Deal level Structured Facilities Monitoring Narrative and Spreadsheet (Form 4801 and Form 4802).</u></li> </ul>	<u>December 15</u>	<u>45 days after 3rd quarter end</u>
<u>Fourth</u>	<u>Trailing 3 months operating data:</u> <ul style="list-style-type: none"> <li>• <u>Property level statements covering the 4th quarter; and</u></li> <li>• <u>Deal level Structured Facilities Monitoring Narrative and Spreadsheet (Form 4801 and Form 4802).</u></li> </ul>	<u>March 15</u>	<u>45 days after 4th quarter end</u>

All Others			
<u>Reportin g Quarter</u>	<u>Period Covered</u>	<u>Reporting Due Date for Property with 12/31 Fiscal Year End</u>	<u>Reporting Due Date for Property with non-12/31 Fiscal Year End</u>
<u>Second</u>	<u>2nd quarter year-to-date</u>	<u>September 15</u>	<u>45 days after 2nd quarter end</u>
<u>Third</u>	<u>3rd quarter year-to-date</u>	<u>December 15</u>	<u>45 days after 3rd quarter end</u>



→ Guidance

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

**503.03** Annual Financial Analysis of Operations

**503.03A** Reporting Period

☑ Requirements

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

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

**503.03B** Submission

✦ Operating Procedures

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

<u>Annual Reporting Protocol</u>		
<u>For...</u>	<u>Due Date</u>	<u>You must...</u>
<u>First Year</u>		
<u>A Mortgage Loan Fannie Mae purchases on or before June 30</u>	<u>June 1 of the following year.</u>	<u>Annualize the operating data to represent 12 months of operations.</u>





Annual Reporting Protocol		
For...	Due Date	You must...
A Mortgage Loan Fannie Mae purchases on or after July 1	June 1 of the second year after purchase.	Submit 12 months of actual operating data.
Subsequent Years		
Every Property	<ul style="list-style-type: none"> <li>• June 1 for a Property with a 12/31 fiscal year end, or</li> <li>• for a Property with a non-12/31 fiscal year end:               <ul style="list-style-type: none"> <li>- within 150 days after the fiscal year-end; and</li> <li>- submit a data change request via the MAMP to change the Borrower's fiscal year end.</li> </ul> </li> </ul>	Submit 12 months of actual operating data.

**503.03C** Annual Review

Operating Procedures

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

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

**503.04** Waiver Request

Operating Procedures



Waiver Reason	Action
<p><u>Unresponsive Borrower</u></p>	<ul style="list-style-type: none"> <li>• <u>Request the Borrower provide the missing statements.</u></li> <li>• <u>If the Borrower does not respond after 3 written requests, wait to submit a waiver request via the MAMP until:</u> <ul style="list-style-type: none"> <li>- <u>for an annual report, 6 months after the due date; or</u></li> <li>- <u>for a quarterly report, the next due date.</u></li> </ul> </li> <li>• <u>Include “Unresponsive Borrower” as the waiver condition in the MAMP.</u></li> <li>• <u>Provide copies of all relevant Borrower correspondence.</u></li> <li>• <u>Provide any additional requested information.</u></li> </ul>
<p><u>All Others</u></p>	<p><u>Submit a waiver request via the MAMP if:</u></p> <ul style="list-style-type: none"> <li>• <u>Your Lender Contract does not require collecting Property operating statements.</u></li> <li>• <u>The Mortgage Loan Documents do not permit you to collect, nor require the Borrower to submit, financial reports.</u></li> <li>• <u>The Mortgage Loan:</u> <ul style="list-style-type: none"> <li>- <u>liquidated in the current quarter (for quarterly reporting waivers), or year (for annual reporting waivers), before the Financial Analysis of Operations submission due date;</u></li> <li>- <u>was delivered per a Forward Commitment and has not yet converted to a permanent loan;</u></li> <li>- <u>was defeased;</u></li> <li>- <u>has FHA or HUD risk sharing;</u></li> <li>- <u>is managed by Fannie Mae’s Special Asset Management; or</u></li> <li>- <u>was acquired by Fannie Mae in the current reporting year, and less than 6 months of Property operating data is available.</u></li> </ul> </li> </ul>

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



## Section 504

## Loan Agreement Compliance

### 504.01 Generally

#### ✓ Requirements

For all Mortgage Loans, you must

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

#### ➔ Guidance

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

### 504.02 Financial Reports and Information

#### 504.02A Borrower and Guarantor Notices

#### ✦ Operating Procedures

You:

- Will receive an annual list of all Mortgage Loans requiring Guarantor financial records for the past fiscal year.
- Must send the Borrower and Guarantors a list of all required financial reports.
- Must provide the Borrower and Guarantors sufficient time for you to submit certified financial reports:
  - for Borrowers,
    - within 45 days after the end of each fiscal quarter, and
    - 120 days after the end of each fiscal year; and
  - for Guarantors, by June 1.
- Must use best efforts to obtain all required reports.
- Must promptly submit all Guarantor financial reports received per Review Financial Reporting (18206).



## **504.02B** Borrower Fails to Provide Guarantor Financial Reports

### Operating Procedures

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

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

You must provide:

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

If the Borrower or a Guarantor...	You..
<p><u>Fails to:</u></p> <ul style="list-style-type: none"> <li>• <u>timely submit all required information; or</u></li> <li>• <u>respond to at least 3 written notices.</u></li> </ul>	<p><u>Must request a waiver through</u></p> <ul style="list-style-type: none"> <li>• <u>the MAMP for financials required from the Borrower, or</u></li> <li>• <u>Sponsor Financials for financials required from the Guarantors.</u></li> </ul>
<p><u>Is diligently attempting to deliver all required information.</u></p>	<p><u>May extend the 30-day period by an additional 30 days.</u></p>

## **504.02C** Review Financial Reporting

### Operating Procedures

After reviewing the Borrower or Guarantor information:



If you determine...	You must...
<u>No additional follow up is required</u>	<ul style="list-style-type: none"><li>• <u>Submit the certified material through:</u><ul style="list-style-type: none"><li>- <u>the MAMP for the Borrower; and</u></li><li>- <u>Sponsor Financials for Guarantors.</u></li></ul></li><li>• <u>Retain the information in your Servicing File.</u></li></ul>
<u>Additional or supporting information is required</u>	<ul style="list-style-type: none"><li>• <u>Promptly:</u><ul style="list-style-type: none"><li>- <u>contact the Borrower or Guarantor to request additional information; and</u></li><li>- <u>submit a copy of all financial reporting, explanatory schedules, and other supporting information through</u><ul style="list-style-type: none"><li>▪ <u>the MAMP for the Borrower, and</u></li><li>▪ <u>Sponsor Financials for Guarantors.</u></li></ul></li></ul></li><li>• <u>Retain the information in your Servicing File.</u></li></ul>

## **504.02D** Records

### Requirements

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

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

## **Section 505** OFAC Compliance

### Requirements

You must:

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



and

- within 24 hours, report any sanctioned or blocked Person to Lender Risk Management.



## Chapter 6 Watchlist Management

### Section 601 Servicer Watchlist

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#### 601.01 Submission

##### Requirements

You must:

- Maintain a [Servicer Watchlist](#) for your [Portfolio Mortgage Loans](#) that
  - reflects your loan rating methodology, and
  - identifies [Mortgage Loans](#) with heightened credit risk.
- Submit your [Servicer Watchlist](#) for all
  - [Primary Risk Mortgage Loans](#), and
  - [Secondary Risk Mortgage Loans](#).

##### Operating Procedures

Submit your [Servicer Watchlist](#):

- using the CSV upload template located under “Guides and Templates” in the [MAMP](#); and
- within 45 days after each calendar quarter end, but no later than the due date shown in the [MAMP](#).

For each [Mortgage Loan](#), you must:

- Respond “Yes” or “No” to the following 2 questions:
  - Will the [Borrower](#) likely not be able to make timely debt service payments?
  - Will the [Borrower](#) likely not meet the contractual obligations to timely pay off the [Mortgage Loan UPB](#)?
- Explain
  - why it is being reported, and
  - the rationale for its rating.



- Describe the current status of the issues.

## 601.02 Actions

### Requirements

If a [Mortgage Loan](#) has heightened credit risk, you must:

- act to mitigate the risk of loss or default;
- explain the nature and severity of the issues; and
- contact Fannie Mae:

Contact	For...
Watchlist Management	Primary Risk Mortgage Loans with deteriorating Property performance near or below breakeven.
Top Loss	Secondary Risk Mortgage Loans with deteriorating Property performance near or below breakeven.
Special Credits	Property condition concerns per <ul style="list-style-type: none"> <li>• <a href="#">Part V, Chapter 5: Surveillance, Section 502.02: Mortgage Loans with Property Condition Concerns (Not Limited to Watchlist Loans)</a>, and</li> <li>• <a href="#">Property Condition Concerns (18046)</a>, and</li> <li>• <a href="#">Part V, Chapter 5: Surveillance, Section 502.06F: Analysis of Collateral</a>.</li> <li>• <a href="#">Collateral Analysis (18101)</a>.</li> </ul>
Special Asset Management	Monetary default.
Maturity Management	Mortgage Loans maturing within the next 24 months.

### Operating Procedures

Your mitigating actions must include 1 or more of the following:

- monitoring the [Property](#) (and any other collateral)





- management and operations, and
- physical condition (e.g., more frequent inspections);
- implementing or enforcing [Loan Document](#) provisions such as
  - rescinding [Loan Document](#) waivers, or
  - reinstating [Replacement Reserve](#) funding; and
- communicating with all appropriate parties (e.g., [Borrower](#), [Key Principals](#), [Sponsor](#), and [Property manager](#)).

## Section 602 Fannie Mae's Watchlist

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### Guidance

Fannie Mae's [Watchlist](#) identifies [Mortgage Loans](#) with increased credit risk based on Fannie Mae's proprietary

- rating system, and
- [Risk Rating Classifications](#).

### Requirements

You must regularly monitor Fannie Mae's [Watchlist](#) for your [Mortgage Loans](#) in the [MAMP's "My Portfolio"](#) module.

## Section 603 Action Plans

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### 603.01 Primary Risk Mortgage Loans

#### Requirements

You must submit an [Action Plan](#) for any [Primary Risk Mortgage Loan](#)

- identified as a [Substandard Asset](#) on Fannie Mae's [Watchlist](#), and
- with an [Action Plan](#) work item in the [MAMP](#).

The [Action Plan](#) must explain

- all areas of concern,
- the [Sponsor's](#) strategy and timing,



- your actions to resolve the issues, and
- any results.

### Operating Procedures

For a [Small Mortgage Loan](#), do not create an [Action Plan](#) unless Fannie Mae requires it.

For each [Action Plan](#):

- Review the [MAMP](#) module.
- Review the [Action Plan Submission Process Guide](#) under "Guides and Templates" in the [MAMP](#).
- Create a new one or update an existing one twice a year to:
  - document material changes and/or updates since the previous [Action Plan](#);
  - identify causes of the issues and additional actions you and the [Borrower](#) took;
  - explain how the actions will reduce or mitigate risk and loss; and
  - report the results of previous actions.
- Use the prescribed format to submit it in the [MAMP](#) by the "Submission Due Date".

## 603.02 Secondary Risk Mortgage Loans

### Guidance

For a [Secondary Risk Mortgage Loan](#) on your [Servicer Watchlist](#), Fannie Mae may request additional information, including an [Action Plan](#).

### Requirements

You must provide all information and [Action Plans](#) within [5 Business Days](#) after Fannie Mae's request.

## 603.03 Defaulted Mortgage Loans

### Requirements



For any defaulted [Mortgage Loan](#), until servicing is transferred to a [Special Servicer](#), you must continue taking all actions

- noted in the [Action Plan](#), or
- otherwise communicated to Fannie Mae.

#### Guidance

For your defaulted [Mortgage Loan](#) obligations, see [Part V, Chapter 7: Non-Performing Mortgage Loans](#).

## **Section 604**      Servicer Fees

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### Requirements

For any workout, modification, or reinstatement of a [Mortgage Loan](#) on your [Servicer Watchlist](#) or Fannie Mae's [Watchlist](#), without Fannie Mae's prior written approval, you must not

- charge the [Borrower](#) any fee for your own account, or
- ask the [Borrower](#) to reimburse you for any costs or expenses.

## **Section 605**      Fannie Mae Contractors

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### Requirements

You must interact with any Fannie Mae contractor engaged to provide asset management or other services as you would with Fannie Mae directly.



## GLOSSARY

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### ■ Action Plan

Service's Your report to Fannie Mae including detailed analysis of Mortgage Loan and Property issues, Service's strategy for resolving issues, and related actions and outcomes. analyzing

- the Mortgage Loan and Property issues,
- your resolution strategy, and
- related actions and outcomes.

#### Synonyms

Action Plans

### ■ Bulk Delivery

Structured Transaction governed by a Bulk Delivery Agreement that allows future:

- is governed by a Bulk Delivery Agreement; and
- includes the ability to
  - add Mortgage Loans in the future, or
  - substitute a new Property for an existing Property as collateral.
- Mortgage Loan additions; and/or
- Property substitutions.

#### Synonyms

Bulk Deliveries

### ■ Business Day

Any day other than a

- Saturday,
- Sunday,



- day when Fannie Mae is closed,
- day when the Federal Reserve Bank of New York is closed, or
- for any MBS and required remittance withdrawal, a day when the Federal Reserve Bank is closed in the district where any of the MBS funds are held.

### Synonyms

Business Days

## ■ Catastrophic Event

Natural or man-made hazard resulting in an event of substantial extent causing significant physical damage or destruction, loss of life, or drastic change to the natural environment such as earthquake, flood, terrorist attack and windstorm.

- significant physical damage or destruction,
- loss of life, or
- drastic change to the natural environment, such as
  - earthquake,
  - flood,
  - terrorist attack, or
  - windstorm.

### Synonyms

Catastrophic Events

## ■ Completion/Repair Escrow

Custodial Account established by the Lender and initially funded by an escrow deposit from the Borrower on the Mortgage Loan Origination Date to complete for Completion/Repairs or other capital improvements at per the Loan Documents, at the Property.

## ■ Cooperative Property



Multifamily residential property owned by a Cooperative Organization.

### Synonyms

CoopCo-op  
Cooperative

## ■ Credit Facility

Structured Transaction ~~that~~governed by a Master Credit Facility Agreement requiring Mortgage Loans and Properties to be

- ~~is governed by a Master Credit Facility Agreement, and~~
- ~~includes cross-collateralized and cross-defaulted Mortgage Loans and Properties.~~
- cross-defaulted, and
- cross-collateralized.

### Synonyms

Credit Facilities

## ■ Gross Potential Rent

On an annual basis or any specified period, the total actual and potential rent for a Property ~~(per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products and features in Part III).~~

### Synonyms

GPR

## ■ Guarantor

Key Principal or other Person executing a~~Payment Guaranty, Non-Recourse Guaranty, or any other guaranty related to the Mortgage Loan.~~

- Payment Guaranty,
- Non-Recourse Guaranty, or



- any other Mortgage Loan guaranty.

### Synonyms

Guarantors

## ■ Guide

Multifamily Selling and Servicing Guide controlling all Lender and Servicer requirements unless a Lender Contract specifies otherwise.

- ~~controls all Lender and Servicer requirements unless a Lender Contract specifies otherwise; and~~
- ~~includes any exhibits, appendices, or other referenced forms, as updated, amended, restated, modified, or supplemented.~~

### Synonyms

DUS Guide

## ■ Lender

Person ~~approved by Fannie Mae~~ approved to sell or service Mortgage Loans.

### Synonyms

Lenders  
Lender's

## ■ Loan Documents

All executed Fannie Mae-approved documents evidencing, securing, or guaranteeing the ~~debt obligation executed for a Mortgage Loan and approved by Fannie Mae.~~

### Synonyms

Loan Document  
Mortgage Loan Document  
Mortgage Loan Documents

## ■ MAMP



Multifamily Asset Management Portal used to submit Property inspections, operating statements, and requested modifications; asset management reports; and data corrections related to loan or property level attributes.

- Property inspections,
- operating statements,
- requested modifications,
- asset management reports, and
- data corrections for loan or property attributes.

### **Synonyms**

Multifamily Asset Management Portal  
MAMP's

## ■ **Maturity Date**

Date all amounts due and owing under the Mortgage Loan become fully due and payable per the Loan Documents.

### **Synonyms**

Maturity Dates

## ■ **MBA**

Mortgage Bankers Association

### **Synonyms**

MBA's

## ■ **Mortgage Loan**

Mortgage debt obligation evidenced, or when made will be evidenced, by the Loan Documents or a mortgage debt obligation with a Fannie Mae credit enhancement.

- the Loan Documents, or
- a mortgage debt obligation with a Fannie Mae credit enhancement.





### Synonyms

Mortgage Loans  
Mortgage Loan's

## ■ Multifamily Loan Agreement

Agreement evidencing ~~the terms of a Mortgage Loan~~ terms using the Form 6001 series ~~Loan Documents or another form approved by Fannie Mae.~~

- Form 6001 series Loan Documents, or
- another Fannie Mae-approved form.

### Synonyms

Multifamily Loan Agreements

## ■ Note

Instrument evidencing a Mortgage Loan obligation, including Form 6010 series, ~~any other note approved by Fannie Mae, and all applicable addenda, schedules, and exhibits.~~

- Form 6010 series.
- any other Fannie Mae-approved note, and
- all applicable
  - addenda,
  - schedules, and
  - exhibits.

### Synonyms

Notes

## ■ Person

Legal person, including an ~~individual, estate, trust, corporation, partnership, limited liability company, financial institution, joint venture, association, or other organization or entity (whether governmental or private).~~



- individual.
- estate.
- trust.
- corporation.
- partnership.
- limited liability company.
- financial institution.
- joint venture.
- association, or
- other organization or entity (whether governmental or private).

### Synonyms

Persons  
Person's

## ■ Property

Multifamily residential propertyreal estate securing the Mortgage Loan and, including the land (or Leasehold interest in land), Improvements, and personal property (as defined in the Uniform Commercial Code).

- fee simple or Leasehold interest.
- Improvements, and
- personal property (per the Uniform Commercial Code).

### Synonyms

Properties  
Property's

## ■ Replacement Reserve

Custodial Account established by the Lender and funded by deposits the Borrower over the term of the during the Mortgage Loan term for major maintenance and to fund the replacement of



capital items per the Loan Documents. at the Property.

### Synonyms

Replacement Reserves

## ■ Servicer

Primary Person responsible for servicing the Mortgage Loan (e.g.,  
the originator, the selling Lender, or a third party servicer). including

- the originator,
- seller, or
- a third party.

### Synonyms

Servicers  
Servicer's

## ■ Servicing File

FileYour file for each Mortgage Loan serviced. by the Lender.

### Synonyms

Servicing Files

## ■ Special Asset Management

Team that performs the work of the Special Servicer forperforming  
Fannie Mae's Special Servicing that can be contacted at  
sam\_legal\_mailbox@fanniemae.commultifamily\_sam@fanniemae.com

### Synonyms

SAM  
Multifamily Special Asset Management

## ■ Watchlist

Mortgage LoanThe risk rating classification if you or Property



~~exhibiting heightened credit risk as identified by Fannie Mae~~  
~~determine the Mortgage Loan or Fannie Mae has heightened credit~~  
~~risk.~~