Fannie Mae

Multifamily Selling and Servicing Guide

Effective as of November 15, 2024

Fannie Mae

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Summary of Changes

HIGHLIGHTS
Effective as of November 15, 2024 for newly ordered Appraisals, added new: • Appraisal and valuation requirements; and • Instructions for Appraisers (Form 4827).

Primary Changes

- Created a new Instructions for Appraisers (Form 4827).
- Added new requirements related to your:
  - Appraiser
    - selection,
    - communication, and
    - monitoring;
  - review of the
    - Appraisal, and
    - Borrower's business plan; and
  - analysis of the Property's
    - value, and
    - sale history.

Superseded Publication

This publication supersedes Supplement 23-02: Inflation Underwriting Guidance.

Questions

Please contact the Fannie Mae Deal Team with any questions.

Chapter 2 Valuation and Income

~~Section 201 Market and Valuation~~

~~201.01 Market Analysis~~

~~Requirements~~

~~You must:~~

- ~~Evaluate the Property's market area, identifying its strengths and weaknesses.~~
- ~~Take these characteristics into account when structuring the Mortgage Loan.~~

~~201.02 Appraisal~~

~~Requirements~~

~~You must:~~

- ~~obtain an Appraisal that:~~
  - ~~is prepared by a qualified, state-licensed or -certified appraiser;~~
  - ~~conforms to the requirements in the USPAP; and~~
  - ~~meets any governmental regulations in effect when the Mortgage Loan was originated, including the Financial Institutions Reform, Recovery, and Enforcement Act of 1989; and~~
- ~~ensure all:~~
  - ~~Potential Red Flags for Mortgage Fraud and Other Suspicious Activity were considered; and~~
  - ~~unresolved red flags were reported per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance.~~

~~201.02A Appraiser Role and Qualifications~~

~~Requirements~~

~~You must:~~

- ~~Provide the appraiser all documents needed to accurately assess Property's value.~~
- ~~Ensure the appraiser:~~
  - ~~completely and accurately describes the Property and the market;~~
  - ~~provides an opinion of the Property's market value, supported by~~
    - ~~market data,~~
    - ~~logical analysis, and~~
    - ~~sound professional judgment; and~~
  - ~~uses an industry standard form of Appraisal that is appropriate for the size and structure of the Mortgage Loan.~~

~~When selecting an appraiser, you must document that the appraiser is licensed or certified, as appropriate, per applicable state law.~~

~~When using an appraiser, you must ensure the appraiser (whether third-party or in-house):~~

- ~~acts independently;~~
- ~~does not participate in the Mortgage Loan approval; and~~
- ~~is not a member of the loan origination or underwriting staff.~~

~~201.02B~~ ~~Valuation Date~~

~~Requirements~~

~~You must:~~

- ~~update any Appraisal if the Appraisal Date is more than 6 months before the Commitment Date; and~~
- ~~require a new Appraisal if the Appraisal Date is more than 12 months before the Commitment Date.~~

~~Guidance~~

~~For an Appraisal dated less than 12 months before the Commitment Date, you may obtain an updated Appraisal that complies with USPAP~~

~~guidelines, dated within 6 months of the Commitment Date.~~

~~201.02C~~ ~~Appraised Value~~

~~Requirements~~

~~You must ensure the appraiser provides an opinion of the market value, on an "as is" basis, of:~~

- ~~each separate Project per Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership; and~~
- ~~the aggregate market value of all Projects.~~

~~You may also request the appraiser provide an opinion of the Property's market value on an "as completed" basis, but you must only use an "as completed" Appraisal for the opinion of Appraised Value if all of the following conditions apply:~~

- ~~less than 12 months have passed between the Borrower's acquisition of the Property and the Commitment Date;~~
- ~~for any capital improvements made after the Mortgage Loan Origination Date to be considered in an "as completed" Appraisal, they must be:~~
  - ~~Immediate Repairs listed in the PCA; or~~
  - ~~improvements identified by the Borrower, if you agree the improvements will add Property value;~~
- ~~all capital improvements are included in either the~~
  - ~~Completion/Repair Schedule, or~~
  - ~~Rehabilitation Reserve Agreement;~~
- ~~sufficient funds to complete all capital improvements are deposited into either the Completion/Repair Escrow or the Rehabilitation Reserve Account:~~
  - ~~for capital improvements identified as Immediate Repairs, the funds must cover any higher funding percentage you require; and~~
  - ~~for capital improvements identified by the Borrower, the funds must cover the estimated cost (including an allowance for cost overruns); and~~

- ~~all capital improvements are required to be completed in a timely manner:~~
    - ~~those identified by the Borrower must be completed within 12 months after the Mortgage Loan Origination Date; and~~
    - ~~for others identified as Immediate Repairs, a shorter time period may be required by Part II, Chapter 4: Inspections and Reserves, Section 404: Completion/Repairs.~~

~~201.03 Underwriting Value~~

~~Requirements~~

~~Your Underwriting Value must not exceed the Appraised Value, as reduced by any adjustments you deem necessary accounting for Property deficiencies that cannot be cured within 6 months after the Appraisal Date.~~

~~If less than 12 months have passed between the Borrower's acquisition of the Property and the Commitment Date, your Underwriting Value must not exceed the lower of the~~

- ~~Appraised Value, or~~
- ~~sum of the:~~
    - ~~Property's acquisition price per the title company settlement statement;~~
    - ~~cost of capital improvements or repairs that increase the Property's value, if~~
        - ~~completed and fully paid, or~~
        - ~~sufficient funds for completion are deposited in the Completion/Repair Escrow or reserve account; and~~
    - ~~actual acquisition costs, not exceeding 3% of the acquisition price, including:~~
        - ~~Origination Fee;~~
        - ~~arm's length acquisition fee (generally 1% - 2%) paid to an unrelated Person if documented in the Settlement Statement;~~
        - ~~third-party report fees;~~
        - ~~Borrower-paid legal fees incurred on your behalf;~~

- ~~title search and title insurance fees;~~
- ~~survey fees;~~
- ~~real estate and stamp taxes;~~
- ~~deed-recording fees; and~~
- ~~credit report charges.~~

~~Guidance~~

~~Actual acquisition costs should exclude any prepaid operating expenses or deposits applied toward future operating expenses or Property improvements, including:~~

- ~~prepaid or escrowed~~
  - ~~real estate taxes, or~~
  - ~~insurance premiums;~~
- ~~prepaid~~
  - ~~utilities,~~
  - ~~Mortgage Loan interest, including any interest rate buydown expense,~~
  - ~~rents, or~~
  - ~~security deposits;~~
- ~~funded~~
  - ~~Completion/Repair Escrow,~~
  - ~~Replacement Reserve,~~
  - ~~Interest Rate Cap cost,~~
  - ~~operating or Restabilization Reserve, or~~
  - ~~Borrower-controlled Property operating or capital accounts;~~
- ~~fees included in the Gross Note Rate, including any~~
  - ~~Origination Fee, or~~
  - ~~broker fee;~~

- ~~acquisition fees paid to a Borrower- Affiliate; and~~
- ~~for an MAH Property, pre-paid Bond-related and compliance monitoring fees.~~

~~201.01~~ Section 201 Market Analysis

Requirements

~~You~~When structuring the Mortgage Loan, you must:

- ~~Evaluate the Property's market area, identifying its strengths and weaknesses.~~
- ~~Take these characteristics into account when structuring the Mortgage Loan.~~
- evaluate the Property's market; and
- using objective factors, consider its
  - strengths, and
  - weaknesses.

Section 202 Appraisal and Valuation

202.01 Appraisals

~~201.02~~ 202.01A ~~Appraisal~~ Appraiser Selection

Requirements

You must:

- document the selection and approval of an Appraiser, who is:
  - a Certified General Appraiser (or licensed or certified per state law, if that state does not use the Certified General Appraiser designation);
  - listed in good standing on the state roster per Title XI of FIRREA; and

- actively prepares multifamily appraisals in the Property's market;

- ~~obtain an~~require the Appraisal ~~that~~to:
  - ~~is prepared by a qualified, state-licensed or -certified appraiser;~~
  - ~~conforms to the requirements in the USPAP; and~~
  - ~~meets any governmental regulations in effect when the Mortgage Loan was originated, including the Financial Institutions Reform, Recovery, and Enforcement Act of 1989; and~~
  - be in a narrative format, using only objective factors;
  - be signed by the Appraiser;
  - be certified by the Appraiser to conform with current USPAP requirements; and
  - comply with:
    - Instructions for Appraisers (Form 4827); and
    - any governmental regulations in effect when the Mortgage Loan was originated, including
      - FIRREA,
      - all fair lending laws, and
      - all fair housing laws;

- ~~ensure all:~~
  - ~~Potential Red Flags for Mortgage Fraud and Other Suspicious Activity were considered; and~~
  - ~~unresolved red flags were reported per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance.~~

- provide the Appraiser all applicable documents needed to accurately assess Property's value, including:
  - the most recent PCA Report, or any other inspection reports (e.g., a structural engineering report);
  - a rent roll dated within 60 days of the Appraiser's inspection date;
  - Property operating statements detailing
    - income and expenses for the previous year (if available, for the previous 2 years), and

- year-to-date income and expenses;

- your sample of residential leases reviewed;
- copies of any:
  - executed commercial leases, including all amendments and attachments;
  - ground leases;
  - easements or regulatory agreements; and
  - any purchase/sales contracts executed within 3 years before the Appraisal date;
- any Environmental Site Assessments;
- architectural plans, if the Property is not yet completed;
- site plans/surveys, if available;
- for a Moderate Rehabilitation Property, details of the
  - capital expenditures incurred, and
  - total construction costs; and
- any information that may affect the Appraiser's estimate of the Property's value; and

- not accept any Appraisal completed by an Appraiser selected, retained, or compensated by:
  - the Borrower;
  - the Sponsor;
  - any Key Principal;
  - any Guarantor;
  - for an acquisition, the seller or any related party; or
  - any third party, including Mortgage Loan
    - Brokers, or
    - Correspondents.

Guidance

If final reports are unavailable, you may send draft versions of the

- PCA Report, and
- Environmental Site Assessments.

If the final reports differ materially from the drafts sent to the Appraiser, you must:

- forward the final reports to the Appraiser; and
- inquire whether the Appraisal should be updated based on the final reports.

202.01B Permissible Appraiser Communications

☑ Requirements

When communicating with an Appraiser, you must comply with the Appraiser Communications table.

Appraiser Communications	
You may…	You must not…
• obtain supporting information for a specific market, including: - sales or rental comparable properties; - rent or expense data; - capitalization rate data; - recent sales; or - price per unit or square footage ranges; • provide all documents needed to accurately assess the Property's value per this Chapter; • share or request additional supporting comparable property information; and • request additional documents supporting the Appraiser's conclusions.	provide any Mortgage Loan data, such as • LTV, • DSCR, • amount, or • Underwritten NCF.

~~201.02B~~ 202.01C Valuation Date

Requirements

~~You must:~~

- ~~update any Appraisal if the Appraisal Date is more than 6 months before the Commitment Date; and~~
- ~~require a new Appraisal if the Appraisal Date is more than 12 months before the Commitment Date.~~

Valuation Date	
If the Appraisal Date is more than...	You must...
6 months before the Commitment Date	Instruct the Appraiser to update the Appraisal per Instructions for Appraisers (Form 4827).
12 months before the Commitment Date	Order a new Appraisal.

~~Guidance~~Guidance

~~For an Appraisal dated less than 12 months before the Commitment Date, you~~You may be required to obtain ~~an~~a new or updated Appraisal ~~that complies with USPAP guidelines, dated within 6 months of~~if Fannie Mae determines the ~~Commitment Date~~market deteriorated between the

~~.~~

- Appraisal Date, and
- Commitment Date.

202.01D Appraisals Ordered by Another Lender

Requirements

If you Deliver a Mortgage Loan with an Appraisal prepared by an Appraiser selected by another lender, you must:

- make all representations and warranties to Fannie Mae regarding the Appraisal; and

- confirm it complies with this Guide.

202.01E Lender Appraisal Review

☑ Requirements

Your employees must:

- review and approve each Appraisal for adequacy and compliance; and
- ensure the Appraisal includes:
  - an accurate description of the Property and the market, including:
    - the Property's complete legal description;
    - any information you provided the Appraiser;
    - color photographs of the Property's
      - exterior,
      - interior common areas,
      - typical unit interiors,
      - surrounding area,
      - rental comparables,
      - sales comparables, and
      - commercial rental comparables;
    - maps showing the Property's location relative to the location of the
      - land comparables,
      - current rental comparables,
      - future rental comparables, and
      - sales comparables;
    - qualifications of the
      - Appraiser, and
      - any supervising Appraiser; and
    - a copy of your

    - complete signed engagement letter with the Appraiser, and
    - communications with the Appraiser regarding the Appraisal scope;
  - an opinion of the Property's value per Part II, Chapter 2: Valuation and Income, Section 201.02C: Appraised Value, and supported by
    - market data,
    - logical analysis, and
    - sound professional judgment;
  - an opinion of the Property's insurable value; and
  - an industry standard form of Appraisal appropriate for the Mortgage Loan's
    - size, and
    - structure.

You must:

- return any report to the Appraiser that:
  - is incomplete; or
  - lacks credibility; and
- ensure your Appraisal review:
  - is documented in the Transaction Approval Memo;
  - is accompanied by all other Appraisals you ordered on the Property during the past 3 years; and
  - includes all information per the following Appraisal Analysis table.

Appraisal Analysis	
For...	You must...

Appraisal Analysis	
Market Conditions	Confirm the Appraisal accounts for current market conditions, including • supply and demand dynamics, • interest rates, and • economic factors.
Data Accuracy	Verify the Appraisal's data accuracy, including • Property details, • recent sales prices, and • relevant market data.
Property Inspections	Determine if the Appraiser conducted a thorough inspection of the Property, including random sampling of occupied and vacant units per Instructions for Appraisers (Form 4827).

Appraisal Analysis	
Sales/Rental Comparable Analysis	• Determine if the Appraiser used appropriate comparable properties similar in: - size and/or unit count (on both a per-unit and a per-square foot basis); - type (e.g., high-rise, mid-rise, garden, etc.); - age; - condition; - in-unit finishes; - amenities; - location, including ▪ market, ▪ submarket, and ▪ distance to subject; and - sales of comparable properties, with at least 1 ▪ being a listing/pending sale, or ▪ sold within 24 months of the Appraisal Date. • If appropriate comparable properties were not used, either: - coordinate with the Appraiser to obtain additional comparable properties; or - provide the Appraiser additional comparable properties from Appraisals ▪ for any prior transactions you originated within the last 12 months before the Appraisal Date, or ▪ from any external data sources verifiable by the Appraiser.
Market Rents and Expense Analysis	If the Appraiser's proforma income or expenses substantially differ from the Property's income and expenses used to calculate the Underwritten NCF, provide additional supporting comparable property data or rationale supporting your conclusions.

Appraisal Analysis	
Capitalization Rate Analysis	Provide your assessment that the capitalization rate: • supports your final Underwriting Value; and • is within comparable capitalization rates compared to - your portfolio data, or - any other external data sources you use to review appraisals.
Value Reconciliation	• Review how the Appraiser reconciled the values obtained from different approaches to determine the final opinion of value. • Document your assessment.

For each Appraisal, you must ensure all:

- Potential Red Flags for Mortgage Fraud and Other Suspicious Activity were considered and the review documented in the Transaction Approval Memo; and
- unresolved red flags were reported per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance.

202.01F Subsequent Appraisals

Requirements

For any Mortgage Loan, you must not order, obtain, use, or pay for a subsequent Appraisal unless:

- you document in your Transaction Approval Memo that the initial Appraisal:
  - was not credible; or
  - violated legal and/or professional standards related to
    - USPAP, or
    - nondiscrimination; and
- the subsequent Appraisal:
  - is required per your pre-established written pre- or post-funding

Appraisal review policy;

- adheres to a policy of selecting the most reliable Appraisal rather than the Appraisal with the highest value; or
- is required by law.

202.01G Appraiser Discontinuance or Misconduct

Requirements

You must promptly notify:

- Fannie Mae if you discontinue using any Appraiser who completed Appraisals within the past 12 months for Mortgage Loans you Delivered; and
- Fannie Mae and the applicable state Appraiser certifying and licensing agency, or other regulatory body, if you believe an Appraiser is:
  - violating USPAP, fair lending, fair housing, or other applicable laws;
  - not complying with Instructions for Appraisers (Form 4827) in violation of its engagement with you; or
  - engaging in unethical conduct.

202.02 Valuation

~~201.02C~~ 202.02A Appraised Value

Requirements

You must ensure ~~the appraiser provides an opinion of the market value, on an "as is" basis, of~~:

- ~~each separate Project per Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership; and~~
- ~~the aggregate market value of all Projects.~~
- the Appraiser's engagement letter requires compliance with Instructions for Appraisers (Form 4827);
- the Appraiser provides an opinion of the market value on an "as is"

basis;

- the Appraiser's opinion of the market value covers:
  - each separate Project per Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership; and
  - the aggregate market value of all Projects; and
- regardless of any allocation in the purchase/sales agreement, the Appraiser’s opinion of the market value excludes any value from
  - goodwill,
  - business value (permitted for Seniors Housing Properties),
  - intangibles,
  - furniture,
  - fixtures (unless customary in the market), or
  - equipment.

You may also request the ~~appraiser~~Appraiser provide an opinion of the Property's market value on an ~~“~~"as completed~~”~~" basis, but you must only use an ~~“~~"as completed~~” Appraisal for the opinion of Appraised Value~~" value if all of the following ~~conditions~~ apply:

- less than 12 months have passed between the ~~Borrower's acquisition of the Property and the Commitment Date;~~
  - Borrower's acquisition of the Property, and
  - Commitment Date;
- for any capital improvements ~~made~~completed after the Mortgage Loan Origination Date to be considered in an ~~“~~"as completed~~” Appraisal~~" value, they must be:
  - Immediate Repairs listed in the PCA; or
  - improvements identified by the Borrower, if you agree the improvements will add Property value;
- all capital improvements are included in either the
  - Completion/Repair Schedule, or
  - Rehabilitation Reserve Agreement;

- sufficient funds to complete all capital improvements are deposited into either the Completion/Repair Escrow or the Rehabilitation Reserve Account:
  - for capital improvements identified as Immediate Repairs, the funds must cover any higher funding percentage you require; and
  - for capital improvements identified by the Borrower, the funds must cover the estimated cost (including ~~an allowance for~~a cost ~~overruns~~overrun allowance); and
- all capital improvements ~~are required to~~must be completed ~~in a timely manner~~within:
  - ~~those identified by the Borrower must be completed within 12 months after the Mortgage Loan Origination Date; and~~
  - ~~for others identified as Immediate Repairs, a shorter time period may be required by Part II, Chapter 4: Inspections and Reserves, Section 404: Completion/Repairs.~~
  - 12 months after the Mortgage Loan Origination Date, if identified by the Borrower; or
  - any shorter time period per Part II, Chapter 4: Inspections and Reserves, Section 404: Completion/Repairs, if listed as Immediate Repairs.

202.02B Property's Sale History

Requirements

You must:

- analyze the Property's sale history for the last 3 years, including any transfer of a Controlling Interest in the owner;
- address the following in your Transaction Approval Memo:
  - if a sale occurred within the last 24 months, document the
    - circumstances of the sale, and
    - support for any increased Appraised Value by analyzing any
      - Net Cash Flow increases,
      - capitalization rate compression, and
      - value-add market drivers; and

- if any stated sales price per the purchase/sales agreement differs from the transfer price per the public records or third-party reports, investigate and document the discrepancy;

- for any acquisition, confirm the seller was the Property owner in the real estate records when the purchase/sales agreement was signed;
- evaluate the purchase/sale contracts to
  - clearly identify the
    - seller, and
    - purchaser, and
  - confirm the sale was an arm's length transaction;
- review the final settlement statement before the Mortgage Loan Origination Date to confirm accuracy of the
  - purchase price,
  - closing costs, and
  - any cash in/out to the seller and purchaser; and
- submit a copy of:
  - the final settlement statement at Delivery; and
  - all purchase/sales contracts and amendments to
    - the Appraiser, and
    - Fannie Mae.

~~201.03~~ 202.02C Underwriting Value

Requirements

Your Underwriting Value must not exceed the Appraised Value, as reduced by any adjustments you deem necessary, accounting for ~~Property~~:

~~deficiencies that cannot be cured within 6 months after the Appraisal Date~~

~~.~~

- your analysis of the Property's sales history; and/or
- Property deficiencies that cannot be cured within 6 months after the Appraisal Date.

If less than 12 months have passed between the Borrower's acquisition of the Property and the Commitment Date, your Underwriting Value must not exceed the lower of the

- Appraised Value, or
- sum of the:
  - Property's acquisition price per the title company settlement statement~~;~~, with no allocations to:
    - goodwill,
    - business value (permitted for Seniors Housing Properties),
    - intangibles,
    - furniture,
    - fixtures (unless customary in the market), or
    - equipment;
  - cost of capital improvements or repairs that increase the Property's value, if
    - completed and fully paid, or
    - sufficient funds for completion are deposited in the Completion/Repair Escrow or reserve account; and
  - actual acquisition costs, not exceeding 3% of the acquisition price, including:
    - Origination Fee;
    - arm's length acquisition fee (generally 1% - 2%) paid to an unrelated Person if documented in the Settlement Statement;
    - third-party report fees;
    - Borrower-paid legal fees incurred on your behalf;
    - title search and title insurance fees;
    - survey fees;
    - real estate and stamp taxes;

- deed-recording fees; and
- credit report charges.

Guidance

Actual acquisition costs should exclude any prepaid operating expenses or deposits applied toward future operating expenses or Property improvements, including:

- prepaid or escrowed
  - real estate taxes, or
  - insurance premiums;
- prepaid
  - utilities,
  - Mortgage Loan interest, including any interest rate buydown expense,
  - rents, or
  - security deposits;
- funded
  - ~~Completion/Repair Escrow,~~
  - Replacement Reserve (including any initial deposit),
  - Interest Rate Cap cost,
  - operating or Restabilization Reserve, or
  - Borrower-controlled Property operating or capital accounts;
- fees included in the Gross Note Rate, including any
  - Origination Fee, or
  - broker fee;
- acquisition fees paid to a Borrower-Affiliate; and
- for an MAH Property, pre-paid Bond-related and compliance monitoring fees.

Section ~~202~~ 203 Income Analysis

~~202.01~~ 203.01 Underwritten Net Cash Flow (Underwritten NCF)

Guidance

~~Underwritten NCF may~~

- ~~differ significantly across assets, and~~
- ~~will be driven by particular Property circumstances.~~

~~Therefore, when~~When calculating the Property's Underwritten NCF, you should:

- ~~Use~~use objective measures to determine the revenue generated and the expenses incurred~~.~~;
- ~~Use the best information available, including historical performance and anticipated operations.~~
- use the best information available, including
  - historical performance, and
  - anticipated operations;
- ~~Use~~use best efforts to obtain operating statements for the prior 3 years~~.~~;
- ~~Obtain~~obtain the prior full-year operating statement or, at a minimum, one covering the trailing 6 months (annualized)~~.~~;
- request trailing 3-month physical and economic vacancy history if not included on the operating statement provided;
- use best efforts to obtain a current aged receivables report, listing rent delinquencies at day
  - 30,
  - 60, and
  - 90;
- review operating statement and rent roll updates, ensuring no inexplicable variances compared to previously provided statements;
- if variances are identified compared to previously provided

statements, they should be

- investigated,
- reconciled, and
- documented in the Transaction Approval Memo; and

- ~~Consider~~consider if the Property can achieve the Underwritten NCF within 12 months after the Mortgage Loan Origination Date, absent ~~unexpected market conditions or other unforeseen events.~~
  - unexpected market conditions, or
  - other unforeseen events.

You may, for:

- ~~Rely, for~~ acquisitions only, rely on the Borrower's budgeted operating statements~~.~~; and
- ~~Calculate~~all Mortgage Loans, calculate the Underwritten NCF more conservatively, if warranted by ~~particular~~specific Property circumstances.

Requirements

You must ~~use the following table to calculate Underwritten NCF~~:

~~for all~~
~~Mortgage Loans~~
~~unless another table is provided in the applicable Part III chapter based on the specific product.~~

- determine the reasonableness of the Property's current income and expenses based on historical data from external real estate data aggregator services; and
- use the following table to calculate Underwritten NCF for all Mortgage Loans unless another table is provided in the applicable Part III chapter based on the specific product.

REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description

CALCULATION OF NET RENTAL INCOME		
1		GROSS RENTAL INCOME – actual rents in place for occupied units, plus market rents for vacant units based on a current rent roll (multiplied by 12). The Property must have Stabilized Residential Occupancy by Qualified Tenants. If the Property is located in New York City and subject to the J-51 Tax Incentive Program where the Borrower has decontrolled rent-stabilized units (a Decontrol Event), you must adjust the current rents to reflect no rent decontrol benefits: • Calculate the base rent as the rent amount per unit prior to the Decontrol Event date. • Use the base rent for each applicable unit to determine the Gross Rental Income. • Increase the base rent by the appropriate percentage allowed per New York City Rent Stabilization laws per annum through the present rent roll date.
2	PLUS	To the extent deducted as an operating expense, rents for other non-revenue units (e.g., model units deducted in the “model apartment” operating expense in the “general and administrative” category, or actual rent from employee units deducted in the “employee” operating expense in the “payroll and benefits” category).
	EQUALS	GROSS POTENTIAL RENT (GPR)
3	MINUS	Premiums (e.g., identifiable additional income from furnished units or short term leases) and/or corporate premiums (e.g., identifiable additional income from corporate units, housekeeping services, etc.).
4	MINUS	Physical vacancy – market rents for vacant units based on a current rent roll (multiplied by 12).[1]
5	MINUS	Concessions - the aggregate amount of forgone residential rental income from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc.[1]

6	MINUS	Bad debt - the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt.[1]
	EQUALS	NET RENTAL INCOME (NRI)[2]

1 The total of Items 4, 5, and 6 must equal the greater of

• the difference between the trailing 3-month net rental collections (annualized) and GPR, or

• 5% of GPR.

2 NRI must reflect projected operations for the underwriting period.

a. You must assess the NRI using these parameters and fully support any changes:

• Assess the individual month NRI within the prior full-year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized).

• If ~~there~~rents and collections are ~~fluctuations~~stable or increasing, and any negative fluctuation can be reconciled and adequately explained, you may use an NRI that exceeds the trailing 3-month NRI, provided the NRI does not exceed the highest 1-month NRI used in the trailing 3-month NRI calculation.

b. You must assess declines in NRI using these parameters:

• Assess if any decline occurred in NRI for the trailing 3-month period compared to the trailing 6-month period and the trailing 12-month period.

• If the decline in NRI for the trailing 3-month period is greater than 2% compared to either the trailing 6-month period or the trailing 12-month period, you must adjust the NRI downward to an amount that is 2% less than the lowest NRI for the trailing 1-month, 3-month, 6-month, or 12-month period.

• You must make a minimum 2% adjustment to NRI; however, you are expected to make additional downward adjustments as appropriate to reflect current market conditions not reflected in historical operations.

CALCULATION OF OTHER INCOME

7	PLUS	Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must: • be stable; • be common in the market; • exclude one-time extraordinary non-recurring items; and • be supported by prior years. You must assess the individual month's other income within the prior full-year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized). If there are fluctuations, you may use other income that exceeds the trailing 3-month other income (annualized), provided it does not exceed the highest 1-month other income used in the trailing 3-month other income calculation. When determining the other income, you must • adjust Items 8 through 12, and • include specific income for Items 13 through 15 when applicable.
CALCULATION OF COMMERCIAL INCOME		
8	PLUS	Actual income from leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases.
9	PLUS	Actual income from STR units.
10	MINUS	10% of the actual commercial space income (total of Items 8 plus 9).[3]
11	PLUS	Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections.[3]
3 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.		

12	PLUS	Premiums, provided that the income must: • be stable or increasing; • be typical (in type and amount) in the market; • be supported by prior years; and • not exceed the income generated over the most recent year or trailing 12-month period.
13	PLUS	Corporate premiums, provided that this income must: • not be included for more than 10% of the Property's units; • be stable or increasing; • be typical (in type and amount) in the market; • be supported by prior years; and • not exceed the income generated over the most recent year or trailing 12-month period.
14	PLUS	Laundry and vending.
15	PLUS	Parking - income from residential parking/garage spaces.

16	PLUS	All other income, including the following: • application fees; • cable; • club house rental; • fees charged tenants for returned checks due to insufficient funds (NSF); • forfeited security deposits; • late fees; • miscellaneous; • non-refundable fees; • pet fees; • reimbursements; • storage; • temporary tenants; • utility; and • other. The following must not be included: • corporate tax and refunds; • delinquency; • Financial Accounting Standards Board 13 straight-line lease income; • gain on sale; • insurance proceeds; • interest income; • interest on security deposits; • mobile home sales; • partnership funds received; • sales tax collected; • security deposits collected; • security deposits returned; • straight-line lease income; and • tax reimbursement from real estate taxes.
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
CALCULATION OF OPERATING EXPENSES		

17	MINUS	Line-by-line stabilized operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a • lease-up, • rehabilitation, or • other short-term positive or negative factors. Non-recurring, extraordinary expenses must not be included. You must access: • past operating history; • the ~~appraiser'~~Appraiser's expense analysis; • all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and • the Borrower's budget (in the case of an acquisition). You must: • analyze historical operations at the Property; and • apply an appropriate increase over the prior year~~'~~'s operations in determining an estimate; and • include all STR-related expenses in their respective expense line items, including - cleaning, - furnishing, and - repairs.
17(a)	MINUS	Property management fee equal to the greatest of: • 3% of EGI[4]; • actual property management fee~~ (exclude any portion of a non-arm's length property management fee that is subordinated to the Mortgage Loan~~, provided you~~); or~~ - exclude any portion of a non-arm's length property management fee that is subordinated to the Mortgage Loan, and - include any known contractual fee increases occurring over the next 24 months; or • Appraiser's concluded market property management fee.

4 Minimum property management fee may be 2.5% of EGI (rather than 3% of EGI) provided that the:

- underwritten management fee is at least $300 per unit;
- actual third-party management fee is equal to or less than the underwritten management fee;
- Mortgage Loan has an original principal amount greater than $3 million; and
- market management fees support the underwritten management fee for similarly sized properties.

17(b)	MINUS	Real estate taxes based on the greatest of: • actual future tax bill(s) covering a full calendar year; • ~~prior full year's taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or~~ • prior full year's taxes multiplied by 103%; or • in California, the sum of: - any special assessments; plus - the millage rate multiplied by the greater of the ▪ Mortgage Loan amount, or ▪ assessed value. You must, for: • ~~consider any automatic tax reassessment upon acquisition in the next 12-month period; and~~ • ~~for~~ any tax abatement, exemption, deferral, or PILOT expiring within 36 months after the Mortgage Loan Origination Date, ~~underwrite~~include fully assessed real estate taxes~~.~~; • any Property whose sale would trigger an automatic reassessment, include any expected increase; • any Property with an annual or scheduled reassessment within 12 months after the Mortgage Loan Origination Date, include any expected increase; • all Properties: - use the most recently available assessed value (even if preliminary); and - do not use expected results from a protest, unless the protest is legally binding on the Borrower and taxing authority. If the Property has real estate tax abatements, exemptions, deferrals, or PILOTs, they must: • be in effect at closing, per written documentation from the state or local tax assessor; and • survive a foreclosure on the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, deferral, or PILOT (i.e., it is tied to the Property and not the owner).

17 (b) continued	MINUS	If the timeframe for the real estate tax abatement, exemption, deferral, or PILOT is shorter than the Mortgage Loan term, or begins phasing out or expires within 5 years after the Maturity Date, you must consider: • a Bifurcated Mortgage Loan structure (i.e., 2 notes secured by a single first Lien Security Instrument); • an amortization schedule that accommodates the elimination of the abatement; or • providing clear justification and support in the refinance analysis.
17(c)	MINUS	Insurance equal to: • the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or • ~~110% of the current expense, for insurance policies with a remaining term less than 6 months.~~ • for insurance policies with a remaining term of: - less than 6 months, 110% of the current expense; or - 6 to 12 months, 105% of the current expense. For an acquisition: • only underwrite premiums from the purchaser's carrier; and • disregard the seller's current insurance - premiums, or - estimates. If the Property's area is prone to Catastrophic Events, ensure the expense aligns with the market.

17(d)	MINUS	Utilities, including the following: • building lights; • dumpster rental; • electricity; • fuel oil; • heat; • natural gas; • non-common area electric; • parking lot electric; • parking lot lights; • septic; • trash removal (including contract); • utilities; • vacant unit utilities; and • other.
17(e)	MINUS	Water and sewer.

17(f)	MINUS	Repairs and maintenance, including the following: • appliances; • building; • carpet; • cleaning; • common area maintenance; • decorating; • electrical; • elevator; • equipment repairs; • exterminating services; • floor covering replacement; • HVAC; • janitorial; • landscaping (exterior); • landscaping (interior/plants); • lawn and grounds; • lock/keys; • maid service; • make ready; • mechanical; • painting; • parking lot; • parking lot lighting repair; • pest control; • plumbing; • pool; • rubbish removal; • scavenger; • snow removal; • supplies; • supplies (cleaning); • turnover; • vacancy preparation; • water irrigation; • water treatment; • window covering repair/replacement (minor); and • other.

17(g)	MINUS	Payroll and benefits, including the following: • 401k; • bonuses; • contract labor (carpet cleaning); • contract labor (make ready); • contract work; • custodian salary; • employee benefits; • employee expense; • employee insurance; • FICA; • health benefits; • labor plumbing; • manager salaries; • payroll and benefits; • payroll and processing; • payroll taxes; • salaries; • salaries maintenance; • security personnel's salary; • subcontracted labor; • temporary help; • unemployment insurance; • worker's compensation; and • other.
17(h)	MINUS	Advertising and marketing, including the following: • apartment finder/guide; • banners; • brochures; • building signage; • finder's fee; • media commissions; • newspaper ads; • promotions; • resident relations; • signage; • supplies (marketing); • tenant relations; • Yellow Pages; and • other.

17(i)	MINUS	Professional fees, including the following: • accounting or tax preparation fees; • architectural fees; • attorney fees; • bookkeeping fees; • engineering fees; • legal fees/expense; • professional fees; and • other.
17(j)	MINUS	General and administrative, including the following: • ad valorem tax; • administrative fee; • alarm system; • answering service; • auto leasing; • auto repairs; • bank charges; • broker commission/fees; • business license; • cable; • cell phone/pager; • commissions; • computer repairs; • courtesy patrol; • credit check; • donations; • education; • entertainment; • equipment lease/rental; • eviction expense; • fire extinguisher; • freight and shipping; • leased equipment; • leasing commissions; • leasing office expense; • licenses; • life safety;

17 (j) continued	MINUS	• mileage; • miscellaneous general and administrative expenses; • model apartment; • moving expense; • office supplies; • office unit (non-revenue unit); • permits; • personal ~~p roperty~~property taxes; • postage; • printing; • public relations; • rental commissions; • rental expense; • security; • security vehicle and maintenance vehicle; • space designs and drawings; • subscription dues; • telephone; • travel; • truck repairs; • uniform service; • utility vehicle; • vehicle lease; • vehicle repair and expense; and • other.

17(k)	MINUS	Other expenses, including the following: • ancillary expense; • franchise taxes and fees; • general building; • miscellaneous; • ongoing costs associated with any Interest Rate Cap Agreement; • other expenses/costs; and • for STR: - taxes, fees, etc. imposed by the governing jurisdiction; and - if applicable, the difference in actual lease STR income and an equivalent market rate apartment rent (as if leased as an apartment unit). For example, if actual lease STR income for a unit is $1,000 and market rate residential rent for that unit is $900, then deduct $1,200 ($1,000 - $900 = $100 x 12 months) as an "other" expense. Do not include the following: • amortization; • depreciation; • entity (i.e., filing, license, etc.); • financing fees; • initial or upfront costs associated with any Interest Rate Cap Agreement; • interest; • legal fees associated with securing Mortgage Loans; • life insurance; • owner's draw; • partnership fees; • principal payments on any loan; • sales tax paid; and • trust account fees.
18	MINUS	For a Condominium Property or a Shared Use Property: • annual assessment fees, including any expected assessment fee escalation; and • any known special assessments.

19	MINUS	Ground rent for any Ground Lease or any master lease. Ground Lease bonus rent and/or escalations during the term of the Mortgage Loan must be considered when calculating Underwritten NCF and analyzing refinance risk.
	EQUALS	UNDERWRITTEN NOI
20	MINUS	Replacement Reserve expense, including a • minimum annual amount of $200 per unit, or • greater amount if required in Part II, Chapter 4: Inspections and Reserves, Section 405: Replacement Reserve. Replacement Reserve expense must be included whether the escrow is funded or not.
	EQUALS	UNDERWRITTEN NCF

~~202.02~~ 203.02 Underwritten DSCR

☑ Requirements

You must calculate Underwritten DSCR per the following table.

Item	Function	Description
1		Underwritten NCF per Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF).
2	DIVIDED BY	Annual debt service for the Mortgage Loan amount. You must base debt service on a level debt service payment, including amortization, and the greater of the • actual note rate, or • required Underwriting Interest Rate Floor per Form 4660.

When calculating Underwritten DSCR for a Mortgage Loan with an interest-only period, you must use the same level debt service payment, including amortization, regardless of the length of the interest-only period.

The Underwriting Interest Rate Floor, if applicable, is the lowest interest rate you may use to determine the Mortgage Loan amount.

If the Gross Note Rate is below the required Underwriting Interest Rate Floor, per Form 4660, you must use the Underwriting Interest Rate Floor to establish the permitted Mortgage Loan amount.

All underwriting Tier requirements must be based on the Underwritten NCF.

Section ~~203~~ 204 Refinance Risk Analysis

Requirements

You must prepare an exit strategy analyzing the Borrower's ability to refinance the Mortgage Loan in the year after the Maturity Date (e.g., use the projected NCF in year 11 for a Mortgage Loan with a 10-year term), by c alculating a:

- "reversion" cap rate, which is the expected capitalization rate able to be supported per the projected NCF; and
- Refinance Interest Rate.

~~203.01~~ 204.01 Base Assumptions

Requirements

For Loan Year 1, use the Underwritten NCF. For all subsequent Loan Years, you must derive proforma NCF as follows:

Factor	For...	Use...
Income Growth Rate	• Structured Transactions, and • Mortgage Loans secured by multiple Properties	2%.
	All other Mortgage Loans	the growth rates published in DUS Gateway for the Property.

Factor	For...	Use...
Economic Vacancy	All Mortgage Loans	the underwritten economic vacancy rate.
Real Estate Taxes	California Properties	• acquisitions, 2%; or • refinances, no trending is required until the year when the actual tax bill would surpass the underwritten taxes, then trend by 2%.
	Non-California Properties	• use 3% for - Structured Transactions, and - Mortgage Loans secured by multiple Properties; and • for all other Mortgage Loans, use the growth rates published in DUS Gateway for the Property.

Factor	For...	Use...
Real Estate Tax Abatements, Exemptions, Deferrals, or PILOTs	All Mortgage Loans	• if an abatement, exemption, deferral, or PILOT begins phase out or expires within 5 years after the Maturity Date, use fully assessed real estate taxes; and • if an abatement expires or taxes are expected to rise during the Mortgage Loan term, increase taxes to the expected level, then trend by: - 3% for ▪ Structured Transactions, and ▪ Mortgage Loans secured by multiple Properties; or - the growth rate published in DUS Gateway in the year prior to the adjustment for all other Mortgage Loans.
Management Fee	All Mortgage Loans	the underwritten rate.
Replacement Reserves	All Mortgage Loans	the underwritten value.
Insurance and Other Expenses	• Structured Transactions, and • Mortgage Loans secured by multiple Properties	3%.
	All other Mortgage Loans	the growth rates published in DUS Gateway for the Property.

You must estimate the Mortgage Loan UPB at the Maturity Date as follows:

For...	Use...
Amortization	• 30 years, or • the amortization for the applicable product or features.
DSCR	The minimum Tier 2 DSCR for the applicable product or features, per Form 4660.
LTV	The maximum Tier 2 LTV for the applicable product or features, per Form 4660.

Guidance

~~Since these base assumptions are indicative only, you may use more conservative estimates if warranted by circumstances particular to the Property.~~

In most cases, the combined effect of principal amortization and NCF growth should result in a refinancing at the minimum DSCR and maximum LTV for Tier 2, using a reasonable interest rate.

You should consider the following refinance parameters:

- A target reversion capitalization rate at least 2.0% greater than the initial capitalization rate used for determining Underwriting Value.
- A Refinance Interest Rate at least 2.25% greater than the current 10-year Amortizing Nationwide Underwriting Floor rate, per Form 4660.

~~203.02~~ 204.02 Alternative Assumptions

Requirements

You must:

- present an alternative risk analysis using assumptions that deviate from the base assumptions if:
  - you determine the base assumptions do not appropriately estimate the Property's NCF over the Mortgage Loan term; or
  - third-party data providers project rent growth materially below

Fannie Mae growth rates published in DUS Gateway;

- identify and support any deviations with
  - reliable evidence, and
  - historical and projected market trends; and
- state your conclusions, discussing any mitigating factors, such as the:
  - strength of the
    - Sponsor, or
    - submarket; and
  - Property's
    - characteristics,
    - operating history, and
    - performance.

~~Guidance~~Guidance

~~If you determine the base assumptions do not appropriately estimate the Property's NCF over the Mortgage Loan term, you may present an alternative risk analysis using assumptions that deviate from the base assumptions.~~

~~You should:~~

- ~~specifically identify and support any deviations with reliable evidence and historical and projected market trends; and~~
- ~~state your conclusions and discuss any mitigating factors, such as the~~
  - ~~strength of the Sponsor or the submarket,~~
  - ~~Property's characteristics, or~~
  - ~~Property's operating history and performance.~~

Income and Expense Growth Rates: Income and expense trending should incorporate projected market rates based ~~upon~~on general economic, market, and submarket conditions from reliable sources, as well as the Property's characteristics. For example:

- Rents on recently signed leases should only be used for estimating income growth in Loan Years 1 and 2.
- Rent projections greater than the Base Assumption Income Growth Rate should not be used beyond Loan Year 4.
- When improvements in market economic occupancy or sustained market rental rate increases are widely anticipated, growth trends above the Base Assumption Income Growth Rate may be supported.
- Projections of income growth resulting from Property renovations or improved operations should be limited to the first 3 Loan Years.
- When a Property is subject to a scheduled reassessment or a tax abatement phase-in period, tax expense should be adjusted appropriately.
- If a tax abatement, exemption, deferral, or PILOT begins phase out or expires more than 5 years after the Maturity Date, consider if the increased expense within 10 years after the Maturity Date may affect the Borrower's ability to refinance, and warrants
  - a lower Mortgage Loan amount,
  - faster amortization, or
  - a reduced interest only period.
- When you expect to incur costs for tenant improvement allowances and leasing commissions, or to realize rent increases from the rollover of tenants, commercial income should be adjusted appropriately.
- A substantially renovated Property, with improved in-unit finishes and/or new/renovated amenities, may experience different income and expense growth rates than properties of the same age; therefore, growth trends differing from the Base Assumption Income Growth Rate may be supported.

Economic Vacancy: Properties in submarkets with depressed economic conditions due to temporary demand or supply issues may be modeled to reflect the economic vacancy projected by a reliable source. If you expect a decrease in vacancy to achieve stabilized levels, you should consider

- the anticipated timing, and

- effect of decreased economic vacancy on projected income growth over the same time period.

Section ~~204~~ 205 Cash Out Analysis

Requirements

You must:

- examine the risk of allowing cash out to the Borrower (see Form 4660 for a description of cash out transactions); and
- for New Construction, consider the Mortgage Loan amount relative to the Property's total development cost basis.

When underwriting a cash-out transaction, you must consider and document in the Transaction Approval Memo:

- the amount of hard equity remaining in the Property's debt structure, excluding prior permanent financing costs, such as interest or prepayment premium;
- the length of time the Borrower has owned the Property;
- the Property's
  - effective age, and
  - current physical condition;
- over the ownership period, any improvement in
  - asset quality,
  - the Property's operations (i.e., its NCF), or
  - value;
- if the Property's value increased due to an increase in NCF, rather than a decrease in the capitalization rate; and
- for New Construction, the Property's total development costs basis per the New Construction table:

New Construction	
For...	The Property's total development cost basis includes...
Land	• Purchase price; plus • Value created since acquisition from - zoning changes, - demolition, - infrastructure improvements, - parcel assembly over time, and - other subjective entitlements. Note: Valuation should be supported by recent land sale activity on a market and cash basis.
Hard Costs	Expenses for: • items including - substructure, - shell, - interiors, - construction services, - equipment, and - furnishings; • developer fee (8% maximum); and • general contractor fee (10% maximum).
Soft Costs	Fees for: • Appraisal, market studies, etc.; • professional services, including - architecture, - engineering, - consulting, - legal, and - accounting; • review, impact, and testing (i.e., surveys, feasibility, environmental, geotechnical); • building permits and utility access; and • any HUD and LIHTC processing.

New Construction	
Construction Financing Costs	Expenses for: • construction loan financing, including - interest, and - origination fee; • construction period - real estate taxes, - insurance, and - utilities; and • Bond related fees.
HUD or LIHTC New Construction	Amount supported by the Cost Certification.

Cash Out Transaction Support	
Factor...	Must...
Cash Out Proceeds	Be commensurate with the length of the ownership period.
Property Condition	Have improved or been good over the ownership period.
Property NCF	Have improved over the ownership period.
Property Value	Have increased due to higher NCF over the ownership period.

~~Guidance~~

~~When underwriting a cash out transaction you should consider:~~

- ~~the amount of hard equity remaining in the Property, excluding prior permanent financing costs, such as interest or prepayment premium;~~
- ~~the length of time the Borrower has owned the Property;~~
- ~~the Property's effective age and current physical condition;~~
- ~~any improvement in asset quality over the ownership period;~~
- ~~any improvement in the Property's operations (i.e., its NCF) or value over the ownership period;~~

- ~~if the Property's value increased due to an increase in NCF, rather than a decrease in the capitalization rate; and~~
- ~~for New Construction, the Property's total development costs basis:~~

~~New Construction~~	
~~For...~~	~~The Property's total development cost basis includes...~~
~~Land~~	• ~~Purchase price; plus~~ • ~~Value created since acquisition from~~ - ~~zoning changes,~~ - ~~demolition,~~ - ~~infrastructure improvements,~~ - ~~parcel assembly over time, and~~ - ~~other subjective entitlements.~~ ~~Note: Valuation should be supported by recent land sale activity on a market and cash basis.~~
~~Hard Costs~~	~~Expenses for:~~ • ~~items including~~ - ~~substructure,~~ - ~~shell,~~ - ~~interiors,~~ - ~~construction services,~~ - ~~equipment, and~~ - ~~furnishings;~~ • ~~developer fee (8% maximum); and~~ • ~~general contractor fee (10% maximum).~~
~~Soft Costs~~	~~Fees for:~~ • ~~appraisal, market studies, etc.;~~ • ~~professional services, including~~ - ~~architecture,~~ - ~~engineering,~~ - ~~consulting,~~ - ~~legal, and~~ - ~~accounting;~~ • ~~review, impact, and testing (i.e., surveys, feasibility, environmental, geotechnical);~~ • ~~building permits and utility access; and~~ • ~~any HUD and LIHTC processing.~~

~~New Construction~~	

~~Construction Financing Costs~~	~~Expenses for:~~
	• ~~construction loan financing, including~~
	  - ~~interest, and~~
	  - ~~origination fee;~~
	• ~~construction period~~
	  - ~~real estate taxes,~~
	  - ~~insurance, and~~
	  - ~~utilities; and~~
	• ~~Bond related fees.~~

~~HUD or LIHTC New Construction~~	~~Amount supported by the Cost Certification.~~

~~Cash Out Transaction Support~~	
~~Factor...~~	~~Should...~~
~~Cash Out Proceeds~~	~~Be commensurate with the length of the ownership period.~~
~~Property Condition~~	~~Have improved or been good over the ownership period.~~
~~Property NCF~~	~~Have improved over the ownership period.~~
~~Property Value~~	~~Have increased due to higher NCF over the ownership period.~~

Section 206 Borrower Business Plan

☑ Requirements

For acquisitions or refinances where the Property is being repositioned through a substantial capital improvement plan, you must analyze (and document in your Transaction Approval Memo) the:

- Sponsor's:
  - business plan (either through a written plan or by a conversation with the Sponsor), including

- market rent growth expectations,
- any planned capital improvements,
- any expected rent premiums after renovations,
- operating expense management, and
- value appreciation through capitalization rate compression;

- expected ownership period for the Property relative to the Mortgage Loan term; and
- expected investment returns from owning/operating the Property, assuming
  - acquisition at the Underwriting Value, and
  - a hypothetical disposition at the Mortgage Loan's Maturity Date;

- Mortgage Loan's Underwritten Capitalization Rate; and
- motivation in the Property's investment compared to the Borrower's other investment alternatives.

Section ~~205~~ 207 Rent-Stabilized Properties

Guidance

For Rent-Stabilized Properties (e.g., located in New York State), you should:

- underwrite Property income based on current rents;
- exclude any potential rent increase for units converting to market rate from the projected NCF in the refinance risk analysis;
- assess and stress the cap rate used to determine the Underwriting Value, and consider obtaining an Appraisal before Rate Lock;
- for fund Sponsors or other Sponsors requiring minimum investment returns, consider whether the Sponsor's interests are aligned with the limited rent increases allowed under the law; and
- fund the Replacement Reserve to maintain the Property's physical condition.

Section 301 Description

Requirements

A Moderate Rehabilitation Mortgage Loan is secured by a Property that will undergo at least $8,000 per unit of Rehabilitation Work. This Chapter does not apply to Properties with a lesser amount of rehabilitation work.

Product Description	
Minimum Per Unit Cost for Rehabilitation Work	$8,000 per unit: • based on the total number of residential units at the Property, not the number of units being rehabilitated; and • includes the estimated cost of all Completion/Repairs identified in the PCA (or MBA Standard Inspection Form, if applicable).

Rehabilitation Timing	The Rehabilitation Work must be completed as follows: • items identified as Completion/Repairs in the PCA, per Part II, Chapter 4: Inspections and Reserves, Section 404: Completion/Repairs; • Efficiency Measures qualifying for a Green Rewards Mortgage Loan, per Part III, Chapter 4: Green Mortgage Loans; • if the Moderate Rehabilitation Mortgage Loan meets the requirements for using the Appraised Value on an "as completed" basis (per ~~Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation~~Appraisal and Valuation (21541)), then the Rehabilitation Work may be completed after the 12-month period, but not later than 36 months after the Mortgage Loan Origination Date; and • all other Rehabilitation Work, in a timely manner, but not later than 36 months after the Mortgage Loan Origination Date.
Completion/Repair Escrows	For Completion/Repairs identified in a PCA , if you require full or partial funding of a Completion/Repair Escrow , any higher funding amount you require above the estimated cost of Completion/Repairs must be funded.
Mezzanine Financing	If the Rehabilitation Work is funded through Mezzanine Financing , you must also comply with Part III, Chapter 16: Mezzanine Financing and Preferred Equity .

Section 302 Underwriting

☑ Requirements

For all Moderate Rehabilitation Mortgage Loans...	
Rent or Income Restrictions	For Multifamily Affordable Housing Properties, you must ensure that the rents expected to be charged after Rehabilitation Work is completed are consistent with any rent or income restrictions.
Tenants, Guests, and Employees	You must identify and mitigate any risks that the Rehabilitation Work may have during the renovation period on • the health and safety of tenants, guests, or employees at any time, and • tenant displacement, and consider a relocation plan to minimize the effects of the displacement.

Guidance

For all Moderate Rehabilitation Mortgage Loans, you should consider the following questions about the Rehabilitation Work:

- Are at least 60% of the budgeted improvements for interior unit upgrades?
- Are the projected cost estimates reasonable and sufficient to complete the entire scope of work?
- Does the budget, including the sources, uses, and schedule, provide adequate capital availability during the term of the work?
- Are construction contracts guaranteed maximum price contracts that specify a completion date?
- Given the scope of work, is a fully-funded Completion/Repair Escrow or Rehabilitation Reserve Account appropriate?
- Is the Sponsor's net worth and liquidity adequate to fund any unexpected cost overruns or operating deficits?
- Does the Sponsor have demonstrated experience with the scope of work in the same or similar real estate markets?
- Does the Borrower have sufficient economic incentive to complete the entire scope of work, including the feasibility of achieving projected post-rehabilitation rents sufficient to meet the target

effective gross income?

- Should a Key Principal execute a Completion Guaranty (Form 6018) that covers a portion or the entire scope of the Rehabilitation Work?
- Should additional collateral (e.g., deposits into the Rehabilitation Reserve Account that are greater than the budget for the Rehabilitation Work, operating deficit reserve, Letter of Credit, etc.) be required?

Section 303 Rehabilitation Work Costing More than $20,000 Per Unit

303.01 Rehabilitation Work Evaluation Report

Requirements

If the Rehabilitation Work will cost more than $20,000 per unit and includes structural additions or modifications, then in addition to the other requirements in this Chapter, you must obtain a rehabilitation work evaluation report from either the PCA Consultant or a licensed architect or engineer.

This rehabilitation work evaluation report must include:

- a review and evaluation of the Property;
- the scope of Rehabilitation Work; and
- all significant construction contracts related to the Rehabilitation Work.

The report must also address, and you must evaluate, the following:

- Is the planned Rehabilitation Work structurally sound and physically feasible?
- Is the estimated cost of the Rehabilitation Work reasonable?
- Will the work be completed within the Borrower's scheduled time frame, but not later than 36 months after the anticipated Mortgage Loan Origination Date?
- Will the work comply with all zoning, building, and fire code regulations?
- Is there any additional work that is not already planned but that should be undertaken?

303.02 Rehabilitation Reserve Agreement

☑ Requirements

You must ensure that the Borrower:

- Executes a Modifications to Multifamily Loan and Security Agreement (Rehabilitation Reserve – Moderate Rehabilitation) (Form 6222) that identifies the planned scope of the Rehabilitation Work on the Rehabilitation Work Schedule, including
  - all of the Rehabilitation Work items,
  - estimated costs,
  - allowance for cost overruns, and
  - completion dates.
- Completes a budget for the planned Rehabilitation Work.
- Funds a Rehabilitation Reserve Account with the:
  - entire budgeted amount (or a higher amount that you require) for all Rehabilitation Work that is not identified as Completion/Repairs by the PCA; and
  - estimated cost (or a higher amount that you require per Part II, Chapter 4: Inspections and Reserves, Section 404: Completion/Repairs) for Completion/Repairs.

Section 304 Supplemental Mortgage Loans

☑ Requirements

Moderate Rehabilitation Supplemental Mortgage Loans must comply with Part III, Chapter 14: Supplemental Mortgage Loans, except as modified by this Section.

Supplemental Mortgage Loans	
Origination Date	• Must be originated within 36 months of the Moderate Rehabilitation Mortgage Loan's Origination Date. • Require no minimum period to elapse provided the minimum Rehabilitation Work is completed at the Property after origination of the Moderate Rehabilitation Mortgage Loan.
Loan Term	Must be coterminous with the Moderate Rehabilitation Mortgage Loan.
Completed Rehabilitation Work	• Completed Rehabilitation Work or other repairs, replacements, or improvements must comply with this Chapter. • You must document evidence of the - qualifying scope of work completed at the Property, and - cost of work and improvements to the Property verified by you.
Site inspection	You must perform a site inspection if the qualifying work was not completed pursuant to a Completion/Repair Schedule or a Rehabilitation Reserve Agreement. This requirement may be satisfied if the most recent asset management site inspection was conducted after the required work was completed at the Property.
Rate Lock	Are not eligible for the Streamlined Rate Lock option.

Chapter 7 Multifamily Affordable Housing Properties

Section 701 Generally

701.01 Description

Requirements

An MAH Property is a Property that is encumbered by a regulatory agreement, land use restriction agreement, extended use agreement, or similar restriction (an Affordable Regulatory Agreement) that

- limits rents that can be charged to tenants, or
- imposes income limits on tenants.

An Affordable Preservation Transaction is any transaction involving an MAH Property that:

- currently has rent or income restrictions meeting the eligibility criteria of an MAH Property, but the Property is potentially at risk of being lost from the affordable housing inventory through conversion to market-rate housing;
- is not receiving new LIHTCs; and
- is being acquired or refinanced, but excludes a Mortgage Loan paying off the initial construction loan.

701.02 Eligible Lenders

Requirements

You must be approved in writing to Deliver MAH Mortgage Loans.

Section 702 MAH Property Eligibility

702.01 Eligible Characteristics and Underwriting

Requirements

You must ensure that an MAH Property has rent or income restrictions that meet or exceed 1 of the following:

- **20% @ 50%:** at least 20% of all units have rent or income restrictions in place making them affordable to households earning no more than 50% of AMI as adjusted for family size.

- **40% @ 60%:** at least 40% of all units have rent or income restrictions in place making them affordable to households earning no more than 60% of AMI as adjusted for family size (except for New York City, where at least 25% of all units have rent or income restrictions in place, making them affordable to households earning no more than 60% of AMI as adjusted for family size).
- **HAP contract:** at least 20% of all units are subject to a project-based HAP contract.
- **Special Public Purpose:** the Property
  - is subject to an Affordable Regulatory Agreement imposed by a government entity, containing other rent and/or income restrictions,
  - has rent or income restrictions that meet or exceed **20% @ 80%:** at least 20% of all units have rent or income restrictions in place making them affordable to households earning no more than 80% of AMI as adjusted for family size, and
  - meets a noteworthy special public purpose.
- **Sponsor-Initiated Affordability:** the Borrower may voluntarily self-impose rent and income restrictions to preserve or create multifamily affordable housing. These restrictions must:
  - require the Property to have
    - rent and income restrictions that meet or exceed **20% @ 80%**: at least 20% of all units have rent and income restrictions in place making them affordable to households earning no more than 80% of AMI as adjusted for family size, and
    - restricted unit rent limits not exceeding 30% of the adjusted AMI;
  - be placed on record against the Property by executing the Sponsor-Initiated Affordability Agreement (Form 6490);
  - be in place at the Property by the Mortgage Loan Origination Date;
  - require the Property to comply with the Sponsor-Initiated Affordability Agreement (Form 6490) within 12 months after the Mortgage Loan Origination Date;
  - remain in place during the Mortgage Loan term; and

- be certified annually by the Borrower and monitored by an Administering Agent for compliance with the Sponsor-Initiated Affordability Agreement (Form 6490).

Guidance

An MAH Property may also:

- be subject to FHA Risk Sharing;
- be financed using tax-exempt Bonds;
- receive LIHTCs under Section 42 of the Internal Revenue Code, and its related U.S. Treasury regulations;
- be subject to inclusionary zoning (e.g., targeting certain income levels or employees of certain firms or institutions, etc.) or resale restrictions; or
- receive other state, local or federal subsidies which are conditioned on the affordability of some or all of the units in the Property, including Rural Housing Service (RHS) Section 515 Loans, and Loans insured under Section 202 or Section 236 of the National Housing Act.

Requirements

You must:

- Reflect the impact of the rent or income restrictions in your underwriting.
- Maintain a copy of the applicable Affordable Regulatory Agreement or Property restrictions in your Servicing File.

Operating Procedures

For any Property with Sponsor-Initiated Affordability, the Borrower must execute the:

- Sponsor-Initiated Affordability Agreement (Form 6490); and
- Modifications to Multifamily Loan and Security Agreement (Sponsor-Initiated Affordability Restrictions) (Form 6271).

To commit and Deliver a Mortgage Loan that qualifies as Special Public

Purpose or Sponsor-Initiated Affordability, refer to:

- Multifamily Affordable Housing Property Definition – Special Public Purpose FAQs; and
- Sponsor-Initiated Affordability FAQs.

702.02 Ineligible Characteristics and Underwriting

Requirements

You must not underwrite or price the Property as an MAH Property if it has:

- less than 3 years of rent or income restrictions remaining on the Affordable Regulatory Agreement and is expected to transition to market rents during the term of the Mortgage Loan; or
- 3 or more years of LIHTC restrictions remaining, but the Borrower intends to enter into the Qualified Contract Process (per Section 42 of the Internal Revenue Code) within 3 years after the Mortgage Loan Origination Date.

Operating Procedures

If a Property will have existing rent, income, and/or occupancy restrictions when you Deliver the Mortgage Loan, you must indicate the “MAH type” in C&D under “Other Attributes”, even if you cannot underwrite the Property as an MAH Property or Affordable Preservation Transaction per this Section 702.02: Ineligible Characteristics and Underwriting.

Section 703 Property Income and Underwriting

703.01 Underwritten NCF

Requirements

You must use the following table to calculate Underwritten NCF.

REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		

1		GROSS RENTAL INCOME – the least of: • rents permitted under any federal, state, or local subsidy program applicable to the Property, as adjusted for AMI, family size, and number of bedrooms in a unit, and reductions for the applicable utility allowances[1]; • rents permitted under any restrictive covenants, subordinate financing requirements, or an Affordable Regulatory Agreement recorded on the Property; or • based on a current rent roll, - actual rents in place for occupied units, plus - for vacant units, the lowest of: ▪ actual rents in place for comparable occupied units; ▪ market rents; and ▪ permitted rents, described above (multiplied by 12).[2] Rent from non-project based Housing Choice Vouchers must not exceed the average rent for comparable units without non-project based Housing Choice Vouchers. You must include incremental HAP contract income per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 707.01: Properties with Both HAP Contracts and LIHTC Units.
2	PLUS	To the extent deducted as an operating expense, rents for other non-revenue units (e.g., model units deducted in the “model apartment” operating expense in the “general and administrative” category, or actual rent from employee units deducted in the “employee” operating expense in the “payroll and benefits” category).
	EQUALS	GROSS POTENTIAL RENT (GPR)[1]
3	MINUS	Physical vacancy – applicable actual rents for vacant units and MAH unit type (e.g., 20% @ 50%, 40% @ 60%, or HAP contract) based on a current rent roll (multiplied by 12).[3]
4	MINUS	Concessions – the aggregate amount of forgone residential rental income from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc.).[3]
5	MINUS	Bad debt – the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt.[3]
	EQUALS	NET RENTAL INCOME (NRI)[2, 3, 4]

1 For Properties with HAP contracts, you

- may use newly approved rents if they are effective by the first day of the month after the Mortgage Loan Origination Date, even if the rents exceed trailing GPR, but
- may not use rents based on
  - an agreement to enter into a HAP contract (AHAP),
  - commitment to enter into a Housing Assistance Payment contract (CHAP), or
  - a "comfort letter".

2 You may underwrite HAP contract rents up to:

- 5% above market rents if the MAH Property is located in an Eligible MSA; or
- 10% above market rents if the MAH Property is located in a Strong Market, provided the Property's
  - HAP contract expires after the Maturity Date, and
  - current and average 3-year physical occupancy is greater than or equal to 95%.

3 The total of Items 3, 4, and 5 must equal the greater of

- the GPR including any permitted HAP contract rent increases multiplied by the percentage difference between
  - the trailing 3-month net rental collections (annualized), and
  - trailing GPR excluding any HAP contract rent increases not in effect before the Mortgage Loan Origination Date; and
- either
  - 5% of GPR, including any permitted HAP contract rent increases, or
  - 3% of GPR, including any permitted HAP contract rent increases, if:
    - the Property is located in a Strong or Nationwide Market per Form 4660;
    - for a Property without a HAP contract, the actual rents for restricted units are at least 10% below comparable market rents; and
    - the economic vacancy (i.e., the total of Items 3, 4, and 5) is supported by current and 3 years of historical economic vacancy data.

4 You must assess the NRI, including any declines, and make adjustments per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.

CALCULATION OF OTHER INCOME[5]

6	PLUS	Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must: • be stable; • be common in the market; • exclude one-time extraordinary non-recurring items; and • be supported by prior years. You must assess the individual month's other income within the prior full-year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized). If there are fluctuations, you may use other income that exceeds the trailing 3-month other income (annualized), provided it does not exceed the highest 1-month other income used in the trailing 3-month other income calculation.
5 If premiums or corporate premiums are applicable for a particular MAH Property, inclusion of premium income is permitted consistent with Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.		
CALCULATION OF COMMERCIAL INCOME		
7	PLUS	Actual income from leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases.
8	PLUS	Actual income from STR units.
9	MINUS	10% of the actual commercial space income.[6]
10	PLUS	Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections.[6]
11	PLUS	Laundry and vending, parking, and all other income per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.
6 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.		
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
CALCULATION OF OPERATING EXPENSES		

12	MINUS	Line-by-line stabilized operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a • lease-up, • rehabilitation, • or other short-term positive or negative factors. Non-recurring, extraordinary operating expenses must not be included. You must assess: • the past operating history; • the ~~appraiser~~Appraiser's expense analysis; • all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and • the Borrower's budget (in the case of an acquisition). You must: • analyze historical operations at the Property; • apply an appropriate increase over the prior year's operations in determining an estimate; and • include all STR-related expenses n their respective expense line items, including - cleaning, - furnishing, and - repairs.
13	MINUS	Property management fee equal to the greatest of: • 4% of EGI[7]; • actual property management fee (exclude any portion of a non-arm's-length property management fee that is subordinated to the Mortgage Loan); or • market property management fee.
7 Minimum management fee may be 3.5% of EGI (rather than 4% of EGI) if the: • underwritten management fee is at least $300 per unit; • actual management fee is equal to or less than the underwritten management fee; and • market management fees support the underwritten management fee for similarly sized MAH properties. If the MAH Property is located in a Strong Market or Eligible MSA and the Mortgage Loan's original UPB is greater than $6 million, the minimum management fee may be the greatest of • 2.5%, • $300 per unit, • the actual management fee, or • market management fees for similarly sized MAH properties.		

14	MINUS	Real estate taxes based on the greatest of: • actual future tax bill(s) covering a full calendar year; • prior full year's taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or • in California, the sum of: - any special assessments; plus - the millage rate multiplied by the greater of the ▪ Mortgage Loan amount, or ▪ assessed value. You must: • consider any automatic reassessment upon acquisition in the next 12-month period; and • for any tax abatement, exemption, deferral, or PILOT expiring within 36 months after the Mortgage Loan Origination Date, underwrite fully assessed real estate taxes.
14 continued	MINUS	If the Property has real estate tax abatements, exemptions, deferrals, or PILOTs, they must: • be in effect at closing (or at conversion in the case of a Forward Commitment), per written documentation from the state or local tax assessor; • survive a foreclosure on the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, deferral, or PILOT as long as the rent, income, or other restrictions are maintained (i.e., it is tied to the Property and not the owner); and • if governed under the California Welfare Tax Exemption Program, meet the following: - if a refinance, the Borrower must be in and remain in compliance with the California Welfare Tax Exemption program; or - if an acquisition or a Transfer/Assumption where the Affiliate with Control of the Borrower (which is typically a non-profit entity), or the non-profit entity itself, is changing you must: ▪ escrow at least 6 months of full real estate taxes at closing which will be released after confirming that the California Welfare Tax Abatement is approved and in place at the Property; ▪ ensure that the Borrower has demonstrated experience with the California Welfare Tax Abatement Program; and ▪ ensure that the Borrower is and remains eligible for the California Welfare Tax Abatement Program.

14 continued	MINUS	If governed under the Florida affordable housing property exemption (per Sections 196.1978(1) and (2) of the Florida Statutes), • for a refinance, the Borrower must initially be in compliance, and remain in compliance, with the Florida affordable housing property exemption; or • for an acquisition or a Transfer/Assumption, you must: - confirm the Borrower applies to the county taxing authority within 60 days after the Mortgage Loan Origination Date; - escrow full taxes until you confirm the Florida affordable housing property exemption is approved and in place at the Property; and - after confirmation, refund the escrowed taxes to the Borrower. If the Property benefits from real estate tax abatements, exemptions, deferrals, or a PILOT that will not survive a Foreclosure Event, then you may use a reduced real estate tax payment only if: • upon reapplying for the original underwritten tax abatement or an alternative tax abatement, Fannie Mae or a subsequent Property owner would qualify for the tax abatement; • the rent or income restrictions at the Property are maintained; and • you have ensured that: - if a qualified non-profit entity is required to participate in the ownership structure of the MAH Property in order to qualify for the tax abatement, exemption, or deferral, a sufficient number of qualified non-profits currently operate in the market (at least 3 for an MSA with a population of less than 1 million and at least 5 for an MSA with a population of 1 million or greater), and in the event of a foreclosure, could serve in the replacement ownership structure to qualify for the tax abatement, exemption, deferral, or PILOT; and - the original or alternative tax abatement, exemption, deferral, or PILOT has ▪ been established in the state's statutes, ▪ been in effect for at least 10 years, and ▪ the Lender conducted all appropriate due diligence and confirmed that there is no material risk that the tax abatement, exemption, or deferral legislation will be repealed or revised in a manner that would affect the Property's ability to continue to qualify for the tax abatement, exemption, deferral, or PILOT.

14 continued	MINUS	If the timeframe for the real estate tax abatement, exemption, deferral, or PILOT is shorter than the Mortgage Loan term, or begins phasing out or expires within 5 years after the Maturity Date, you must consider: • a Bifurcated Mortgage Loan structure (i.e., 2 notes secured by a single first Lien Security Instrument); • an amortization schedule that accommodates the elimination of the abatement; or • providing clear justification and support in the refinance analysis. For a Property with a tax abatement, the Modifications to Multifamily Loan and Security Agreement (Tax Abatement or Exemption) (Form 6251) must be executed even if you do not underwrite the tax abatement.
15	MINUS	Insurance equal to: • the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or • 110% of the current expense, for insurance policies with a remaining term of less than 6 months.
16	MINUS	Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)
17	MINUS	Replacement Reserve expense per Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF).
	EQUALS	UNDERWRITTEN NCF

703.02 Underwriting

703.02A Appraised Value and Underwriting Value

☑ Requirements

In addition to the Appraisal requirements in ~~Part II, Chapter 2: Valuation and Income, Section 201.02: Appraisal~~Appraisal and Valuation (21541), you must:

- Include 2 separate opinions of the Appraised Value based on:

- Restricted Value from the Affordable Regulatory Agreement, using
  - comparable multifamily rental properties,
  - the Property's submarket,
  - properties with similar rent or income restrictions, and
  - any tax abatements or exemptions.
- Unrestricted Value from the Property's income and expenses without the Affordable Regulatory Agreement (e.g., market rents, occupancy, and operating expenses), using
  - comparable multifamily market rate rental properties,
  - the Property's submarket, and
  - full taxes if rental income restrictions are required by a tax abatement or exemption.

- Ensure that each Appraised Value is based on a market cap rate without any upward or downward adjustment for:
  - special financing (other than adjusted cap rates for Credit Enhancement Mortgage Loans); or
  - tax credit benefits.
- Determine the appropriate Appraised Value for the Underwriting Value per ~~Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation~~Appraisal and Valuation (21541).

703.02B Market Study

Requirements

If the Property is subject to a HAP contract that will expire before the Mortgage Loan Maturity Date, you must include a market study (which can be part of the Appraisal) that:

- is prepared by a qualified real estate professional; and
- identifies the absorption rate, lease-up period, and rent level for comparable market rate rental properties in the submarket.

703.02C Affordable Regulatory Agreement Restrictions

Guidance

To underwrite the Mortgage Loan as an MAH Property, the Affordable Regulatory Agreement restrictions should remain in effect for the term of the Mortgage Loan.

Requirements

When the Affordable Regulatory Agreement restrictions have 3 or more years remaining but will expire before the Mortgage Loan Maturity Date, you must provide support to underwrite to the MAH Preservation standards in the Form 4660, taking into account factors such as:

- restricted rents below market rate rents;
- the Property's history of operating as an MAH Property;
- the Borrower's history and experience owning and operating MAH Properties;
- the Borrower's intention to renew the Affordable Regulatory Agreement;
- the amount of time between the Maturity Date and when the Affordable Regulatory Agreement restrictions expire;
- market strength; and
- how the Property compares to comparable market rate properties in terms of occupancy, condition, and amenities if the Borrower intends to convert the Property to market rate rents and if no rent advantage exists.

See Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 702.01: Eligible Characteristics and Underwriting regarding self-imposed restrictions.

703.02D 35-Year Amortization

Requirements

If you use a 35-year amortization term, the:

- Property must have LIHTCs with at least 8 years remaining in the initial 15-year compliance period; and
- minimum MAH Mortgage Loan term must equal the greater of
  - the remaining initial compliance period, and

- 10 years.

703.02E LIHTC Income Averaging

Guidance

When a Sponsor elects LIHTC Income Averaging for a Property with new LIHTCs, you should consider:

- Will LIHTC Income Averaging impact other non-LIHTC regulatory agreements?
- Is LIHTC Income Averaging compatible with other funding and subsidy source requirements, including any project-based HAP contract?
- Has LIHTC Income Averaging been approved by the
  - state agency, and
  - LIHTC investor or syndicator?
- Will the on-site Property management staff have sufficient experience?
- Will the unit mix be impacted, including
  - unit parity,
  - multi-building election,
  - floating units, and
  - market rate units?
- What is the rent advantage, especially for units above 60% of AMI?
- For a Forward Commitment,
  - is the Property not a resyndication of a property previously developed or preserved using LIHTCs and subject to an existing extended use agreement, or
  - if the Property is a resyndication, have you confirmed the property has completed its extended use period?
- Does the market study include capture rates for each unit designation supporting LIHTC Income Averaging?

Requirements

You must identify and mitigate any risks from electing LIHTC Income Averaging.

703.02F Initial LIHTC Equity

Requirements

For any MAH Property with new LIHTCs, you must ensure at least 20% of the aggregate LIHTC equity that the LIHTC investor or syndicator must contribute into the limited partnership is received on or before the Mortgage Loan Origination Date.

703.02G Developer Fees

Guidance

You should analyze the development budget, including the

- developer fee due the Sponsor or any Affiliate, and
- any deferred developer fee (i.e., the portion of the developer fee shown as a source in the sources and uses statement).

If the deferred developer fee is greater than 50% of the total developer fee, you should confirm there are sufficient

- hard and soft contingency budgets, and
- projected surplus cash flows to repay the deferred developer fee within the initial compliance period.

703.02H Rent-Stabilized Units

Guidance

Refer to Part II, Chapter 2: Valuation and Income, Section 205: Rent-Stabilized Properties regarding rent-stabilized MAH Property units.

Section 704 Subordinate Financing

704.01 Interest Rate and Payments

Requirements

You must ensure any subordinate loan:

- has a fixed rate; and
- any non-Soft Financing has:
  - interest payable on a current basis; and
  - no deferrals or accruals.

704.02 Loan Term

Requirements

You must ensure any non-fully amortizing subordinate loan, including any Soft Financing, matures at least 180 days after the Maturity Date of the Mortgage Loan and any Pre-Existing Mortgage Loans.

Guidance

A fully amortizing subordinate loan may mature at any time regardless of the Mortgage Loan Maturity Date. A subordinate loan may also be fully or partially forgiven at any time per its loan documents.

704.03 Collateral and Credit Support

Requirements

You must ensure the Mortgage Loan obtains the same credit support and collateral as any subordinate loan, including any

- recourse to the Borrower or any guarantor, or
- additional collateral.

You may secure the subordinate loan with a Lien on the Property if the Lien:

- is subordinated to the Security Instrument's Lien per
  - Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.07: Subordination Agreement,
  - Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.08: Lien Priority and Title Insurance Policy, and
  - Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.09: Form of Subordinate Loan Documents; and
- includes only the same collateral covered by the Mortgage Loan's

Security Instrument.

704.04 Soft Financing

Requirements

Provision	To be considered Soft Financing...
Financing Terms	Subordinate loan terms must comply with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704: Subordinate Financing.
Payments	• Any subordinate loan payments due during the Mortgage Loan term, including any fees, must be payable only from the surplus NCF remaining after all other payments (due and owing) are made on the Mortgage Loan or any Pre-Existing Mortgage Loans. • No more than 75% of the surplus NCF must be available for payments on all Soft Financing unless the note is payable to the Sponsor or an Affiliate.
Events of Default	Failure to pay principal and/or interest due to lack of surplus NCF must not be an event of default.
Subordination	Subordination must comply with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.07: Subordination Agreement.

Guidance

Soft Financing may have:

- a nominal interest rate (e.g., 1% or 2%);
- interest that does not accrue;
- principal payments that do not fully amortize the subordinate loan over its term; or
- a loan term significantly longer than the Mortgage Loan term, with the subordinate loan either
  - being forgiven over time or at its maturity date, or
  - due only upon the sale of the Property.

704.05 Subordinate Lender

Requirements

If the Lender type is...	Then...
Public / Quasi-Public / Not-for-Profit Lender	A subordinate loan provided by a public, quasi-public, or not-for-profit Lender may • be Soft Financing, or • require mandatory payments of P&I, or interest-only.
Private Lender	You must ensure that any subordinate financing originated by a private, for-profit Lender is Soft Financing per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.04: Soft Financing.

704.06 Developer's Notes

Requirements

You must ensure any developer note or advance due the Sponsor or an Affiliate is Soft Financing per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.04: Soft Financing.

704.07 Subordination Agreement

Requirements

For all subordinate financing, including Soft Financing, you, the Borrower, and the subordinate Lender must enter into either:

- Fannie Mae form Subordination Agreement (Affordable) (Form 6456), if the subordinate Lender is a government entity; or
- Fannie Mae form Subordination Agreement (Conventional) (Form 6414), if the subordinate Lender is not a government entity.

704.08 Lien Priority and Title Insurance Policy

Requirements

You must ensure:

- The subordinate loan, along with any Lien securing the subordinate loan, remains at all times, subordinate to the Security Instrument's Lien, including any refinancing.
- The Subordination Agreement is recorded in the land records immediately after the subordinate security instrument is recorded.
- The lender's title insurance policy reflects the recordation of the Subordination Agreement.

704.09 Form of Subordinate Loan Documents

Requirements

You must confirm that the subordinate loan documents:

- comply with this Chapter;
- include the specific provisions required by the Subordination Agreement; and
- do not require the Borrower to maximize rents at the Property (even if the Property is subject to an Affordable Regulatory Agreement).

704.10 Prepayment

Requirements

The Borrower may not prepay or redeem the subordinate loan without Fannie Mae's consent.

704.11 LIHTC Equity Bridge Loans

Requirements

LIHTC Equity Bridge Loan	Requirements
Lender Eligibility	The LIHTC equity bridge lender must not be on ACheck.
Repayment	Must be completely repaid on or before the final LIHTC equity payment associated with the Property's placed-in-service date.

LIHTC Equity Bridge Loan	Requirements
Amount	Maximum of 80% of aggregate LIHTC equity contribution.
Funding Conditions	No performance hurdles or Property performance benchmarks tied to bridge loan payments.
Note	• Non-recourse to Borrower. • Fixed or variable rate.
Guaranty (Repayment or Completion)	Must be subordinated to any Guaranty in favor of Fannie Mae.

Bridge Loan Collateral Types (multiple types allowed)	Bridge Lender Affiliated with You or LIHTC Investor	Bridge Lender Unaffiliated with You, LIHTC Investor, or Sponsor	Bridge Lender Affiliated with Sponsor
Assignment of Rights to Capital Contribution from LIHTC Equity Investor	Acceptable	Acceptable	Unacceptable
Assignment of Development Fee	Acceptable	Acceptable	Acceptable
Subordinate Security Instrument	Unacceptable	Unacceptable	Unacceptable

Bridge Loan Collateral Types (multiple types allowed)	Bridge Lender Affiliated with You or LIHTC Investor	Bridge Lender Unaffiliated with You, LIHTC Investor, or Sponsor	Bridge Lender Affiliated with Sponsor
Assignment of General or Limited Partnership Interests	Acceptable if Bridge Lender has LIHTC experience	Acceptable if Bridge Lender has LIHTC experience	• Acceptable for general partnership Interests • Unacceptable for limited partnership Interests
Subordination Agreement	Conventional Form	Conventional Form	Affordable Form

Section 705 Restrictive Covenants and Affordable Regulatory Agreements

Requirements

For MAH Properties and non-MAH Properties, the Affordable Regulatory Agreement, except for a HUD Use Agreement, must be subordinated to the Lien of the Security Instrument if the agreement:

- grants rights, remedies, or powers similar to that of a secured creditor to any aggrieved party;
- impairs the Lien rights or priority of the Lien of the Security Instrument;
- contains any Borrower obligations other than the affordability restrictions;
- contains any rights or remedies to enforce the affordability restrictions other than specific performance or injunctive relief; or
- does not terminate upon Mortgage Loan foreclosure.

To subordinate the Affordable Regulatory Agreement to the Security Instrument Lien

- use an approved Subordination Agreement, or

- for an Affordable Regulatory Agreement with a subordinate loan, use Subordination Agreement (Affordable) (Form 6456).

Guidance

The rights, remedies, and powers of a secured creditor would typically include:

- the ability to appoint a receiver;
- the right to collect rents directly from the mortgaged property;
- the right to take possession of the mortgaged property;
- limitations on transferring title to you or to a subsequent transferee by foreclosure or deed in lieu;
- no requirement to give you notice of violations of or amendments to the Affordable Regulatory Agreement; and
- the ability to remove or replace the Property manager without your prior consent.

Section 706 ROAR Loan

706.01 Generally

Requirements

You must ensure any ROAR Loan:

- is a Mortgage Loan or Credit Enhancement Mortgage Loan using a Credit Enhancement Instrument;
- has a fixed rate;
- has a minimum Mortgage Loan amount of $5 million; and
- is secured by an MAH Property that:
  - currently has Stabilized Residential Occupancy, but will likely experience tenant displacement significant enough to lower the Underwritten DSCR, calculated using the Gross Note Rate, below the required DSCR set forth in Form 4660; and
  - will undergo repairs, replacements, or improvements costing $10,000 per unit or more (based on the total number of residential units at the Property), or qualifies as a Moderate Rehabilitation Property.

706.02 Timing

Requirements

Within 18 months after the Mortgage Loan Origination Date

- the ROAR Work must be completed, and
- Restabilized Residential Occupancy must be achieved.

706.03 General Underwriting

Guidance

In addition to complying with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans, you should also review and evaluate:

- the reasonableness of the estimated cost of the ROAR Work and the completion schedule;
- whether the ROAR Work can be completed and the Restabilized Residential Occupancy achieved within 18 months after the Mortgage Loan Origination Date;
- the Borrower's experience in developing or rehabilitating properties similar to the ROAR Property;
- the tenant relocation plan, including budget and schedule;
- the ROAR Work budget, including monthly sources and uses during the rehabilitation period;
- any construction risks;
- the LIHTC investors' financial strength, experience, and reputation; and
- the projected rent levels relative to market rents.

706.04 Additional Underwriting and Loan Documents

Requirements

You must underwrite the ROAR Loan per the following table.

Topic	Description

Underwritten NCF	GPR must comply with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703.01: Underwritten NCF; Underwritten NCF can be based on the Restabilized Residential Occupancy and normalized operating expenses achievable within 18 months after the Mortgage Loan Origination Date.
Appraisal	The Appraisal must include an opinion of the ~~value of the~~ Property's market value on both an “as is” and an “as completed” basis that incorporates the ROAR Work to be completed after the Mortgage Loan Origination Date.
Occupancy During ROAR Work	Physical Occupancy: minimum of 50%; and Economic Occupancy: minimum of 50%.
Minimum DSCR During ROAR Work	Using the ROAR Stressed NCF, actual fixed interest rate, and maximum loan amount based on the “as completed” value • 0.75 on an amortizing basis, or • 1.00 on an interest-only basis, if applicable.
Rehabilitation Reserve Agreement	Required.
Key Principal Guaranties	The Key Principal must execute a • Completion Guaranty (Form 6018), and • an operating deficit guaranty.
Letter of Credit	Any Letter of Credit must: • comply with Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit; and • equal at least 125% of the difference between the maximum Mortgage Loan amount based on - the “as completed” value, and - the “as is” value.
Additional Credit Support	May be required.

Underwriting Fee	You must: • charge the Borrower an underwriting fee equal 3 basis points of the Mortgage Loan amount; and • pay that amount to Fannie Mae.

Section 707 HAP Contract Properties

707.01 Properties with Both HAP Contracts and LIHTC Units

Requirements

For a Mortgage Loan secured by an MAH Property or a Credit Enhancement Mortgage Loan, if the Property has both HAP contracts and LIHTC units, you must underwrite the Mortgage Loan using 1 of the following options.

Choice	Requirements
Option 1	Underwrite the rents from HAP contract units using the lowest of • market rents, • HAP contract rents, and • applicable LIHTC rents. Applicable LIHTC rents are the lower of • maximum allowable LIHTC rents minus utility allowances, and • actual rents in place for occupied units subject to a LIHTC Affordable Regulatory Agreement.

Choice	Requirements
Option 2	Underwrite the rents from HAP contract units using the additional income above the LIHTC rents (LIHTC overage) if: • at least 20% of the Property's units are subject to a project-based HAP contract; • the HAP contract rents are less than or equal to market rents; • the weighted average LIHTC unit rents are least 10% below market; • the MAH Property is located in a market or submarket with 90% or greater economic occupancy, both for market rate and MAH Properties; and • the Sponsor has experience and success owning and operating properties with HAP contracts. If the HAP contract expires before the Mortgage Loan Maturity Date, you must ensure the Property's Underwritten DSCR is greater than or equal to • 1.05 based on the LIHTC rents, and • 1.10 based on the LIHTC rents after the HAP contract expires.

707.02 Restabilization Reserve

Requirements

For all Tier 2 and Tier 3 Mortgage Loans, you must establish a Restabilization Reserve for an MAH Property that has a HAP contract if the HAP contract term (excluding any annual or incremental government appropriation conditions) expires before the Mortgage Loan Maturity Date.

The Restabilization Reserve must:

- equal the monthly Mortgage Loan P&I, multiplied by the greater of
  - 6 months, or
  - the lease-up period determined by the market study per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703.02B: Market Study; and

- remain in place until
  - the Property achieves underwritten occupancy for 90 days at market rate rents, or
  - the HAP contract is renewed with an expiration date after the Mortgage Loan Maturity Date.

You may eliminate the Restabilization Reserve if the:

- weighted average LIHTC unit rents are at least 10% below market;
- MAH Property is located in a market or submarket with 90% or greater economic occupancy, both for market rate and MAH Properties; and
- Sponsor has experience and success owning and operating properties with HAP contracts.

707.03 HAP Contract Review Sheet

Requirements

Before you Deliver the Mortgage Loan, you must:

- complete the Section 8 Housing Assistance Payments (HAP) Contract Review Sheet and Certification (Form 6422); and
- confirm that all conditions for approval are met.

Section 708 Refinancing Section 236 Properties – IRP is Maintained

Requirements

For Fannie Mae to consider the cash flow from an IRP, the Borrower must decouple the IRP from the existing Section 236 note and mortgage by

- prepaying the Section 236 Loan, and
- having the IRP transferred to a new Mortgage Loan (which will be then considered a Section 236 Loan for purposes of continuing the IRP).

708.01 No Additional Proceeds

Requirements

If the Borrower is not seeking additional proceeds based on the IRP, you must exclude the amount of the IRP from the LTV and Underwritten DSCR.

708.02 Additional Proceeds from Mortgage Loan

Requirements

If the Borrower is seeking additional proceeds from the Mortgage Loan based on the IRP, then you must ensure that:

- The Mortgage Loan has equal monthly payments of P&I.
- The portion of the Mortgage Loan sized based on the Underwritten NCF meets Fannie Mae's LTV and Underwritten DSCR requirements without considering the IRP cash flow.
- The portion of the Mortgage Loan sized based on the IRP cash flow has an Underwritten DSCR of at least 1.00.
- The financing structure reflects the remaining term of the IRP through a bifurcated note or amortization structure.

In a Forward Commitment transaction, if the IRP is decoupled from the original Section 236 Loan, you do not need to ensure principal amortization during the construction phase.

708.03 Additional Proceeds from Other Sources

Requirements

If the Borrower is seeking additional proceeds from sources other than the Mortgage Loan based on the IRP, you must:

- factor the debt into the Property’s overall LTV; and
- comply with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704: Subordinate Financing.

Section 709 LIHTC Properties – Lender Equity Interest

Requirements

Fannie Mae will only purchase a Mortgage Loan secured by a LIHTC Property in which you are an equity investor (directly or indirectly) in the

Borrower if the following conditions are met:

- Your equity interest in the Borrower is solely for obtaining the LIHTCs in the Property, and you have no
  - management authority for the Property, or
  - equity interest (other than the LIHTCs) in
    - the Borrower,
    - any Key Principal,
    - any Person holding a Controlling Interest in the Borrower or Key Principal,
    - any Principal, or
    - any Guarantor.
- You and the equity syndicator are organized to ensure independent analysis and decision making occurs in the
  - underwriting and approval of the debt,
  - equity investments, and
  - servicing of the Mortgage Loan.
- Your underwriting submission includes:
  - a description of the relationship among the
    - Lender,
    - Borrower, and
    - applicable Lender Affiliate; and
  - an organizational chart or diagram showing:
    - the complete Borrower ownership structure, including any Lender or Lender Affiliate equity interest; and
    - each entity's ownership interest.

Section 710 Transactions with Fannie Mae Debt and Equity Interests

710.01 Transactions Funded with Tax-Exempt Bond Proceeds

☑ Requirements

If a Mortgage Loan will be funded with tax-exempt bond proceeds and the Property securing the Mortgage Loan qualifies for LIHTCs, you must confirm:

- If Fannie Mae owns or plans to acquire a direct or indirect equity interest in the Borrower, it does not own or intend to acquire an interest in the tax-exempt Bonds.
- If Fannie Mae owns or plans to acquire an interest in the tax-exempt Bonds, it does not own or intend to acquire a direct or indirect equity interest in the Borrower.

710.02 Fannie Mae Credit-Enhanced Tax-Exempt Bond Issuance

Requirements

You must confirm that if Fannie Mae credit enhances tax-exempt Bonds issued to fund a Mortgage Loan, it does not also own or intend to acquire a direct equity interest in the Borrower.

If Fannie Mae owns or intends to acquire an indirect equity interest in the Borrower through a fund, you must confirm:

- Fannie Mae's indirect equity interest in the Borrower is less than 50%;
- in the case of a LIHTC transaction:
  - the IRS documentation filed in connection with the Bond issuance shows that none of the Bond proceeds were applied to pay any portion of Fannie Mae's credit enhancement fee;
  - the Bond issuer and the Borrower have either
    - entered into a LIHTC agreement that acknowledges Fannie Mae's equity interest, or
    - consented in writing to Fannie Mae's equity interest; and
  - any required notices to the Borrower and the issuer under a LIHTC agreement have been provided; and
- in the case of a non-LIHTC transaction, the issuer and the Borrower have consented in writing to Fannie Mae's equity interest.

Section 711 FHA Risk Sharing

711.01 Description

Guidance

Fannie Mae and the HUD have a risk sharing agreement to share risk on Mortgage Loans for certain MAH transactions. HUD's risk sharing is in the form of mortgage insurance from FHA. HUD takes 50% of the risk of loss, and the remaining 50% of the loss is shared by you and Fannie Mae.

711.02 Eligibility

711.02A Borrowers, Key Principals, Guarantors, and Principals

Requirements

You must ensure that the Borrower (and each Key Principal, Guarantor, and Principal) is not on the most current "List of Parties Excluded from Federal Procurement or Nonprocurement Programs".

711.02B Generally

Requirements

You must ensure:

- All FHA Risk Sharing Mortgage Loans are fixed rate with no interest-only period.
- The minimum Mortgage Loan term is 15 years.
- The Property has an affordability restriction where
  - at least 20% of the units are rent-restricted and occupied by families with incomes no more than 50% of AMI as adjusted for family size, or
  - at least 40% (25% in New York City) of the units are rent-restricted and occupied by families with incomes no more than 60% of AMI as adjusted for family size.
- The residential unit's gross rent is restricted to no more than 30% of the unit's Imputed Income Limitation per Section 42 of the Internal Revenue Code.
- Rent, income, and/or occupancy restrictions are in effect for at least the term of the Mortgage Loan. For MAH Properties with remaining affordability restrictions of less than 18 years, the affordability restrictions will be considered senior to the Lien of the Mortgage

Loan when enforcing restrictions.

Guidance

The Property is not located in:

- a 500-year floodplain and likely occupied by tenants who may not be sufficiently mobile to avoid injury or death during floods or storms;
- a Federal Emergency Management Agency-mapped Special Flood Hazard Area 100-year floodplain (except where no buildings or Improvements other than minor grubbing) will be in the floodplain and the floodplain area will be permanently dedicated to non-development;
- the Coastal Barrier Resources System per the Coastal Barrier Resources Act, 16.U.S.C.3501; and
- a Runway Clear Zone (at a civil airport) or Clear Zone (at a military airfield) if the Property is newly constructed or substantially rehabilitated.

711.02C Cash Out

Guidance

There is no limit on the amount of cash out in an FHA Risk Sharing transaction.

711.03 Mortgage Insurance Premium

Requirements

Your pricing for an FHA Risk Sharing Mortgage Loan must include a sufficient amount to pay the mortgage insurance premium due to FHA.

Guidance

Fannie Mae will make this FHA premium payment on or before its due date.

711.04 Subsidy Layering Review

Requirements

You must ensure the Borrower obtains a subsidy layering review when required by federal laws. FHA Risk Sharing Mortgage Loans are a source of federal government assistance.

Operating Procedures

After the subsidy layering review is complete, the applicable reviewing office will issue a certification to the Borrower stating the total amount of governmental assistance is not more than is necessary to provide affordable housing after taking into account other government assistance. You must receive the certification before

- Rate Lock, or
- obtaining a Commitment for a tax-exempt Bond transaction.

711.05 Lender FHA Risk Sharing Reserve and Loss Sharing Modifications

Operating Procedures

If a Mortgage Loan was approved for FHA Risk Sharing, you must indicate an "FHA risk sharing" Mortgage Loan Type on the Mortgage Loan Certificate (Form 6505).

Chapter 4 Asset Management: Loan Document Administration

Section 401 Servicing Requirements

401.01 General

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

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

This Chapter covers the Servicer's:

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

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

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

Fannie Mae email addresses and contact information for notices required in this Chapter are located in the Glossary.

401.02 Monitoring Compliance with Loan Documents

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

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

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

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

402.01 Delegation of Decision-Making Authority

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

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

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

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

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

402.02 Retention of Outside Legal Counsel

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

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

Fannie Mae will:

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

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

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

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

Section 404 Execution of Documents by Fannie Mae

404.01 Submission of Documents to Fannie Mae

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

The Servicer must include directions for returning the documents, including:

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

404.02 Servicer Certification When Fannie Mae Approval Is Not Required

For any document submitted to Fannie Mae for execution when the servicing decision has been delegated to the Servicer, the

Servicer must provide written certification to Fannie Mae that:

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

404.03 Servicer Certification When Fannie Mae Approval Is Required

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

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

Section 405 Fees Due to Fannie Mae

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

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

ABA Number: 021 039 500
Telegraphic Abbreviation: FNMA/NYC
Account Number: 169220242
Note: Type of fee (e.g., Assumption/Transfer),
Fannie Mae Loan Number and Property Name
Attention: Trans code 507 - GL 747669921.

Section 406 Follow-Up Actions by the Servicer

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

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

Section 407 Subordinate Financing

407.01 Non-Fannie Mae Subordinate Financing

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

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

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

407.02 Prerequisite for Subordinate Financing

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

407.03 Fees for Subordinate Financing

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

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

407.04 Submitting the Request for Subordinate Financing

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

- the Servicer must submit the request to Fannie Mae at least 30 days before the projected closing date of the Subordinate Loan; and
- the submission must contain:
  - an Appraisal (obtained at the Borrower's cost), dated no earlier than 90 days prior to the date of the Borrower request for approval of the Subordinate Loan, that complies with ~~Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation~~Appraisal and Valuation (21541);
  - Servicer's underwriting spreadsheet showing the Subordinate Loan's effect on the Property's income, expenses, NCF, DSCR, and LTV;
  - a copy of the final, unsigned loan documents evidencing the Subordinate Loan, with the loan

amount, interest rate, payment schedules, and all other transaction related information completed;

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

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

407.05 Fannie Mae Approval and Execution

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

407.06 Subsequent Servicer Actions

The Servicer must:

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

- insures the Lien of the Security Instrument as senior to the Lien of the subordinate security instrument; and
- reflects the recordation of the Subordination Agreement;

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

Section 408 Administration of Collateral Agreements

408.01 General Administrative Requirements

408.01A Administration of Funds

The Servicer must:

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

408.01B Funds to be Held in a Custodial Account

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

408.01C Use of Funds

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

408.01D Funds as Additional Security for Mortgage Loan

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

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

408.01E Servicer's Fees and Costs

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

408.01F Waiver or Modification of Terms of Collateral Agreement

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

408.02 Achievement Agreement or Other Agreement for Additional Collateral

408.02A General

The provisions of this Section govern Achievement Agreements and all Collateral Agreements, other than:

- Multifamily Loan Agreements, including the

Completion/Repair Schedule and Replacement Reserve Schedule;

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

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

408.02B Releases or Reductions in Collateral

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

1. General

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

2. Supporting Documentation and Analysis

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

(a) Income and Expense Statements; Current Rent Roll

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

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

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

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

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

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

Borrower’s statement.

(b) Servicer’s Analysis

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

(c) Correspondence

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

3. Property Inspection

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

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

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

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

1. Draws Triggered by Adverse Events

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

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

Agreement or other Collateral Agreement; or

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

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

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

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

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

3. Draws Occasioned by Borrower Request

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

Servicer must deny the Borrower request.

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

4. No Interest on Proceeds Held by Fannie Mae

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

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

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

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

The Servicer is delegated the authority to:

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

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

408.03 Completion/Repairs

408.03A General

The Loan Documents for administering Completion/Repairs are:

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

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

408.03B Extensions for Completion/Repairs

The Servicer is delegated the authority to extend the time limits for making Completion/Repairs if:

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

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

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

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

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

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

The Servicer is delegated the authority to:

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

408.03C Completion/Repair Loan Document Amendments

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

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

Notwithstanding the above, the Servicer is not delegated the authority to move required Completion/Repairs to the Replacement Reserve Schedule for any Efficiency Measures that the Borrower agreed to implement in order to qualify as a Green Rewards Mortgage Loan.

The Servicer must:

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

408.03D Servicer's Administrative Requirements

For all Completion/Repairs, the Servicer must:

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

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

408.03E Processing Borrower Requisitions

1. General

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

2. Required Documentation for Disbursement

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

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

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

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

- in a good and workmanlike manner;
- in accordance with any plans and specifications previously approved by the Servicer; and
- in compliance with all applicable laws, ordinances, rules, and regulations of any governmental authority, agency, or instrumentality having jurisdiction over the Property; and

- if the invoice exceeds the lesser of $25,000 or 1% of the UPB:
  - a copy of the invoice detailing the covered materials, labor, or services;
  - payment evidence; and
  - a Lien release from each contractor, subcontractor, or materialman.

3. Disbursement of Funds (Excluding Final Disbursement)

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

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

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

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

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

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

the required completion dates; and

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

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

4. Final Disbursement of Funds

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

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

5. Maintenance of Servicing File

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

408.03F Inspections

1. Use of Third Party

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

2. When Periodic Inspections Are Required

Periodic inspections must be performed as the work progresses if the Completion/Repairs:

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

Inspections must occur at least every 6 months, or more frequently at the Servicer's discretion.

3. When a Final Inspection Is Required

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

- $500,000, or 20% of the UPB for any Mortgage Loan with loss sharing; or
- $250,000, or 10% of the UPB for any Mortgage Loan without loss sharing.

4. Confirming Completion/Repairs if Inspection Is Not Required

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

5. Documenting the Servicing File

In all instances, the Servicer must document in its Servicing File whether all work was satisfactorily completed.

408.03G Fees

Completion/Repair Escrow funds may not be used to cover any administrative or inspection fees due to the Servicer unless expressly permitted Loan Documents, or the Borrower agrees in writing. If permitted, the Servicer may charge the Borrower and deduct the following from any disbursement of funds:

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

408.03H Completion/Repair Defaults

1. Notification of Default to Fannie Mae

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

2. No Release of Funds to Borrower

No funds may be released to the Borrower while the Borrower is in default under any of the Loan Documents.

408.03I Green Rewards Efficiency Measure Verification

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

1. Green Rewards Verification Inspection

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

2. Minimum Inspector Qualifications

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

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

Efficiency Measures	Description	Minimum Inspector Qualification
Basic	Simple upgrades such as: • low-flow water fixtures; or • lighting improvements.	Servicer must ensure the inspector is either a qualified third-party or Servicer staff per Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocol and Part V, Chapter 5: Surveillance, Section 502.05A: Qualifications.
Complex	Upgrades and changes to building systems, such as: • heat recovery ventilation systems; or • boiler controls.	• For Solar PV System Efficiency Measures, the Servicer must retain a - Solar Technical Consultant per Part III, Chapter 4: Green Mortgage Loans, Section 401.03: Technical Solar Report, or - qualified PCA High Performance Building Consultant per the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099). • For other Efficiency Measures, the Servicer must retain a qualified PCA High Performance Building Consultant per Form 4099.

3. Unit Inspection

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

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

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

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

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

4. Determining Compliance

An Efficiency Measure is compliant when the inspector:

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

- documents it on Form 4221.

5. Remediating Noncompliance

When an Efficiency Measure is noncompliant:

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

6. Verification Inspection Form Review

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

408.04 Replacement Reserve

408.04A General

The Loan Documents for administering Replacement Reserves are:

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

The Replacement Reserve funds must be held by the Servicer in a Custodial Account, and are intended to pay for necessary replacements of capital items or major maintenance work to the Property over the term of the Mortgage Loan.

408.04B Replacement Reserve Loan Document Amendments

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

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

408.04C Servicer’s Administrative Requirements

For all Replacement Reserves, the Servicer must:

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

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

408.04D Modifications to Replacement Reserve Deposits

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

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

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

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

408.04E New Property Condition Assessments

1. Timing and Waivers

A new full PCA per Form 4099 is required for:

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

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

Remaining Loan Term	**Servicer Delegation**
Less than 1 Year	The new PCA may be waived for a Mortgage Loan with a: • Pass rating; • Property inspection less than 1 year old; and • Property condition rating of 1, 2, or 3.
1 Year to 5 Years	The new PCA may be waived for a Mortgage Loan with a: • Pass rating; • Property inspection report less than 1 year old; and • Property condition rating of 1 or 2.
More than 5 Years	The new PCA may be waived for 5 years for a Mortgage Loan with a: • Pass rating; • Property Inspection report less than 1 year old; and • Property condition rating of 1 or 2.

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

All PCA waivers must be documented in the Servicing File, and any PCA waiver may be rescinded by Fannie Mae or the Servicer at any time if the Property condition warrants a new PCA.

2. Delivery and Payment of Property Condition Assessment

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

408.04F When Replacement Reserve Funding Was Partially or Fully Waived

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

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

408.04G Interest on Replacement Reserve Funds

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

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

408.04H Items Eligible for Funding from the Replacement Reserve

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

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

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

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

408.04I Items Not Eligible for Funding from the Replacement Reserve

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

408.04J Processing Borrower Requisitions

1. General

The Loan Documents specify the frequency, timing, and size of disbursements from the Replacement Reserve.

2. Required Documentation

Each Borrower requisition must be in writing and specify, at a minimum:

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

replaced (e.g., refrigerators);

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

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

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

3. Disbursement of Funds

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

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

bonded over; and

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

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

4. Maintenance of Servicing File

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

408.04K Inspections

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

408.04L Fees

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

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

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

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

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

408.04M Replacement Reserve Defaults

1. Notification of Default to Fannie Mae

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

2. No Release of Funds to Borrower

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

408.04N Return of Replacement Reserve Funds to Borrower

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

408.04O Alternative Funding of Replacement Reserves for Portfolio Mortgage Loans

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

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

Section 409 Interest Rate Hedge Requirements

409.01 General

An acceptable Interest Rate Hedge must be in place and maintained at all times for:

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

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

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

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

409.02 Interest Rate Hedge Coverage

409.02A Bond Credit Enhancement Transactions

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

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

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

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

409.02B Structured Transactions

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

409.02C Adjusting Interest Rate Hedge Reserves for SARM Loans Using Form 6442 Series with an Effective Date Before May 2024

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

- If the estimated cost of a replacement cap has increased, the Servicer must increase the monthly reserve payment to ensure that sufficient funds will be available to purchase the replacement cap by the end of the reserve period.
- If the estimated cost of a replacement cap has decreased, the Servicer may:
  - opt to not adjust the reserve; or
  - calculate and adjust the monthly escrow payments needed to purchase a replacement Interest Rate Cap based on 115% of the cost of an Interest Rate Cap with the term required by the Loan Documents, provided:
    - it is a Portfolio Mortgage Loan Delivered before January 1, 2023;
    - the Interest Rate Cap escrow payments are recalculated at least every 6 months;
    - it is not part of a Variable Rate Bond C redit

Enhancement Transaction;

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

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

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

Every 6 months the Servicer must adjust the required Interest Rate Cap escrow amount based on 110% of the current cost of the replacement Interest Rate Cap.

409.03 Interest Rate Hedge Term

The Servicer must:

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

409.04 Lien Filings and Collateral

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

409.05 Borrower Payments

409.05A Interest Rate Caps

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

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

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

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

409.05B Interest Rate Swaps

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

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

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

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

409.06 Provider Ratings

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

409.07 Replacement Interest Rate Hedge and Notification

If the current Interest Rate Hedge expires before the Mortgage Loan Maturity Date, at least 90 days before the Interest Rate Hedge terminates, the Servicer must obtain the Borrower's written intention to:

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

If the Borrower elects to purchase a replacement Interest Rate Hedge, the Servicer must:

- confirm that the possible Interest Rate Hedge providers are all on the current list of approved Cap/Swap Counterparties for Multifamily Transactions;
- review the Loan Documents for the replacement Interest Rate Hedge timing requirements; and
- for a replacement Interest Rate Cap, ensure the:
  - Borrower purchases a replacement Interest Rate Cap with a term equal to the lessor of the:
    - remaining Mortgage Loan term; or
    - term specified in the Loan Documents;

- replacement Interest Rate Cap's notional amount:
  - equals the Mortgage Loan's UPB when the replacement Interest Rate Cap becomes effective; and
  - remains at that amount throughout the replacement Interest Rate Cap's term; and
- Cap Strike Rate of the replacement Interest Rate Cap is equal to or less than the Cap Strike Rate required per the Loan Documents.

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

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

409.08 Replacement Interest Rate Hedge Documents and Follow Up

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

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

Section 410 Ground Leases

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

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

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

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

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

- take all reasonable actions to prevent the filing of any Lien that would prime the Lien of the Security Instrument;
- immediately notify Multifamily Asset Management, in writing, upon learning of any such Lien filing, including a recommendation for resolving the situation; and
- submit a Non-Monetary Default Borrower Request in the MAMP, if:
    - the Servicer is aware of any material violation by the Borrower or Property management agent of any applicable law, ordinance, regulation, or other legal requirement; or
    - the Property is not in compliance with any applicable law, ordinance, regulation, or other legal requirement, including, without limitation, any relating to:
        - Fair Housing Act;

- Americans with Disabilities Act;
- non-discrimination;
- environmental hazards;
- occupancy;
- zoning and land use;
- health, fire, and building codes relating to immediately hazardous conditions; and
- illegal use of the Property.

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

Section 412 Property Forfeitures and Seizures

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

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

Section 413 Property and Liability Insurance

413.01 Property and Liability Insurance

The Servicer must:

- ensure that the Property is continuously covered by property and liability insurance, as required by Part II, Chapter 5: Property and Liability Insurance, and that all renewal premiums are paid in full and on time; and

- at least annually review the adequacy of the Borrower's insurance coverage in relation to the current requirements of Part II, Chapter 5: Property and Liability Insurance.

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

413.02 No Financing for Property and Liability Insurance Premiums

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

413.03 Flood Map Changes; Obtaining Flood Insurance

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

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

413.04 Lender Placed Insurance

413.04A Property and Liability Insurance

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

413.04B Flood Insurance

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

413.04C Servicer's Administrative Costs and Expenses

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

Section 414 Casualty Losses – Performing Mortgage Loans

414.01 Notice

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

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

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

414.02 Filing Proof of Loss

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

414.03 Casualty Loss Assessment

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

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

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

414.04 Required Casualty Loss Property Inspection

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

- the casualty loss is expected to exceed the lesser of

(i) $500,000, or (ii) 20% of the UPB of the Mortgage Loan as of the date of the casualty; or

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

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

An inspection by the Servicer is optional if the casualty loss is expected to be less than (i) $500,000, or (ii) 20% of the UPB, and none of the above conditions exist. If the Servicer elects not to inspect the Property, the Servicer must confirm during the next Property inspection, and document in its Servicing File, that the repair and restoration work was satisfactorily completed. If the Servicer determines that the repair or restoration work was not satisfactorily completed, the Servicer must notify Multifamily Inspections and Multifamily Loss Mitigation) in writing, as required by Part V, Chapter 5: Surveillance.

414.05 Documentation for Required Casualty Loss Property Inspections

After inspecting the Property, the Servicer must:

- retain in its Servicing File a copy of the completed Catastrophic Loss Inspection (Form 4261), and photographs of the damaged portions of the Property; and

- submit a copy of the Catastrophic Loss Inspection (Form 4261) and the photographs through the MAMP within 7 days after completing the Catastrophic Loss Inspection (Form 4261).

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

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

Fannie Mae
By: [Name of Servicer]
By: [Name of Servicer's Authorized Signer]
[Title of Servicer's Authorized Signer].

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

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

If the insurance loss draft or check is payable to the Servicer, the Servicer is authorized to endorse the draft or check and apply the proceeds in accordance with this Section. The Servicer must also send the Insurer an Insurance Loss Payee Notice Letter (Form 4803) so that all future insurance loss drafts and checks will be issued to Fannie Mae in care of the Servicer. The Servicer must retain a copy of the Insurance Loss Payee Notice Letter (Form 4803) in its Servicing File.

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

If the insurance loss draft or check is not made payable to either Fannie Mae or the Servicer, the Servicer must return it to the insurance carrier and request the loss draft or check be reissued in the name of Fannie Mae and sent to the Servicer. If the check has already been cashed by the Borrower, the Servicer must demand those funds be either paid by the Borrower to the Servicer and/or deposited in a

Custodial Account meeting the requirements of Part V, Chapter 3: Custodial Accounts.

414.09 Application of Insurance Loss Proceeds

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

414.09A Fannie Mae Determination Required

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

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

414.09B Disposition of Insurance Loss Proceeds

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

Servicer has the authority to:

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

414.10 Property Restoration Requirements

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

- deposit all insurance loss proceeds in a Custodial Account meeting the requirements of Part V, Chapter 3: Custodial Accounts, to incrementally reimburse the Borrower for the cost of repairing the damage;
- require the Borrower to deposit, in the same Custodial Account, funds equal to the difference between (a) the Servicer's estimate of the total cost to repair and restore the Property to its pre-casualty condition, and (b) the amount of the insurance proceeds;
- for losses greater than $75,000, prepare and have the Borrower execute the applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) for use with the 6000 series Loan Documents if documented before the June 2019 Loan Document publication, or Insurance Loss Proceeds Collateral Agreement (Form 6639) for use with the 4000 series Loan Documents, specifying the terms and conditions under which the funds held in the Custodial Account will be released to the Borrower (Form 6615) is not required for Mortgage Loans with Loan Documents documented after the June 2019 Loan Document publication); and
- submit a copy of any applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639) through the MAMP.

The Servicer may waive the above requirement that the

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

Within 7 days of execution, the Servicer must submit through the MAMP copies of:

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

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

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

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

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

414.11 Commencement of Repair/Restoration Work

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

- have any applicable executed Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form

6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639);

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

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

414.12 Disbursements

414.12A Prerequisites for Disbursement of Funds

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

- all repair and restoration work has been completed in a good and workmanlike manner and in accordance with any applicable plans and specifications, as evidenced by submissions from the Borrower and, if applicable, by the Servicer's or a qualified professional's inspection of the completed work;
- all related invoices for items and services have been paid, unless the Borrower has satisfied any applicable pre-conditions of the Amendment to Multifamily Loan and

Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639) for issuance of a joint check made payable to the Borrower and the Person owed funds;

- the necessary release of Lien or Lien waivers have been submitted by all contractors, and no mechanics' Liens, materialmen's Liens, or other Liens are outstanding that have not been acceptably bonded over; and
- the Borrower is not in default under any Loan Document, including the Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639).

414.12B Disbursing Funds

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

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

414.12C Content of Disbursement Request

Each of the Borrower's disbursement requests must be in writing and must specify, at a minimum:

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

The Borrower's disbursement requests must be accompanied by:

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

414.12D Disbursement Amount

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

(i) an amount equal to:

- the actual cost of the repair and restoration work covered by the disbursement request, or, if the work was done under a contract or subcontract pursuant to which other work remains to be done, an amount equal to 90% of the actual cost of the repair and restoration work covered by the disbursement request (i.e., a 10% holdback is required if the work under the applicable contract or subcontract has not been completed in full); plus
- 100% of the cost of any materials used, or to be used, in connection with the repair and restoration work, if at the time of the disbursement request,

title to the materials has passed to the Borrower and the materials have been installed, or are being properly stored, on the Property; or

(ii) an amount equal to the difference between:

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

414.12E Final Disbursement; Notice to Fannie Mae

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

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

414.12F Documentation in Servicing File

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

414.13 Borrower's Failure to Diligently Pursue Repair

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

- proceed diligently with any necessary repair and restoration work;
- perform the work satisfactorily; or
- perform in accordance with the terms of the Loan Documents, including any applicable Amendment to

Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639).

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

414.14 Reimbursement of Administrative Costs

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

Section 415 Casualty Losses – Non-Performing Mortgage Loans

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

Section 416 Credit Facilities and Bulk Deliveries

416.01 General

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

416.02 Delegation of Decisions

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

416.02A Decisions and Actions Not Delegated

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

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

416.02B Decisions Delegated by the Delegated Transaction Form 4636 series

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

416.02C Other Delegated Decisions

Decisions and actions involving the following are delegated to the Servicer to the extent delegated in this Chapter:

- Letter of Credit replacements and draws;
- Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss

Proceeds Collateral Agreements (Form 6639);

- endorsing insurance checks;
- extensions to complete Completion/Repairs;
- changes to the monthly Replacement Reserve deposits;
- administering escrow accounts; and
- administering Collateral Agreements.

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

416.03 Approval Requests

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

416.04 Release and Substitution Requests

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

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

- the Servicer's summary of the Borrower's release/substitution request, and its recommendation regarding approval of the requested release/substitution;
- any waiver requests and the Servicer's recommendation for approval of each waiver;
- when the Borrower expects the release/substitution to close;
- whether the Property meets all conditions to release/substitute and compliance tests (e.g., LTV, DSCR, geographic/asset concentration) stipulated in the Master

Credit Facility Agreement, Bulk Delivery Agreement, and other Loan Documents;

- for a Credit Facility, the release price and calculations (calculated according to the terms of the Master Credit Facility Agreement and other Loan Documents);
- for a Credit Facility, the remaining Allocable Facility Amount balance of the facility and each property after the release;
- the amount of the release/substitution fees associated with the transaction;
- whether a prepayment or advance of funds is expected to occur in connection with the transaction;
- the Structured Facilities Monitoring Spreadsheet (Form 4802) showing the Mortgage Loan level and collateral level data for the Structured Transaction both before and after the release/substitution occurs;
- third-party reports; and
- any other items required by the Loan Documents.

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

If the request is approved, the Servicer must:

- submit its payoff calculations to Multifamily Structured Acquisitions;
- release the collateral from the MSFMS system; and
- if necessary, release, update, and verify any interest rate hedges associated with the transaction in MSFMS.

416.05 Borrow-Up (Future Advance) Requests

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

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

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

416.06 Facility Revaluations

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

416.07 Supplemental Mortgage Loans Not Permitted

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

416.08 Additional Information

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

Section 417 Seniors Housing Properties

417.01 General

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

417.02 Decisions and Actions Delegated and Not Delegated

Decisions and actions covered by the Delegated Transaction Form (Form 4636 series) are delegated to the Servicer as set forth in the applicable Form 4636 series or the Guide. For these requests, the Servicer must submit the completed applicable Form 4636 series through the MAMP. Decisions and actions for Seniors Housing Mortgage Loans regarding the following are not delegated to the Servicer:

- Seniors Housing expansions/conversions, including constructing additional units, substantial alterations, Seniors Housing Major Renovations, and Seniors Housing Minor Renovations;
- changes in the Seniors Housing operator;
- changes in Property management or management agreements;

- changes in licensing (**Note**: All licensing changes require an Opinion of Borrower's Counsel on Origination of Mortgage Loan (Seniors Housing Licensing) (Form 6450.SRS) confirming that all licensing requirements have been met);
- Seniors Housing operator Leases; and
- master leases.

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

417.03 Approval Requests

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

417.04 Seniors Housing Expansion/Conversion Requests

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

417.04A Permitted Purpose

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

- a "Seniors Housing Major Renovation" is any physical improvement costing in excess of (i) $20,000/unit, or (ii) $3 million in total project costs; and
- a "Seniors Housing Minor Renovation" is any physical

improvement that is not a Seniors Housing Major Renovation, but which increases the number of units, or converts one type of unit into another, unless expressly permitted by the Loan Documents.

417.04B Submission Requirements

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

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

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

417.04C Requirements and Monitoring

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

- Escrow:
  - the Borrower must escrow 25% of the estimated construction costs with the Servicer, who will administer the funds through a standard construction draw process; and

- the Borrower must demonstrate to the Servicer's satisfaction that it has sufficient liquid assets to complete the construction;

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

417.04D Construction Completion Requirements

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

- title endorsement to the existing mortgagee title policy, confirming that no mechanics' Liens, materialmen's Liens, or other Liens exist that have not been acceptably bonded over;
- final lien waivers from all contractors, architects,

subcontractors, and material suppliers;

- copies of updated or newly issued certificates of occupancy;
- renewed licenses;
- confirmation in the form of an Opinion of Borrower's Counsel on Origination of Mortgage Loan (Seniors Housing Licensing) (Form 6450.SRS) that all licensing requirements have been met;
- certificate from the Borrower, architect, and contractor certifying to the Servicer, for the benefit of Fannie Mae, that the improvements:
  - are completed in accordance with the plans and specifications approved by Fannie Mae; and
  - meet the local zoning and planning restrictions, and all other governmental requirements;
- final inspection of completed Improvements;
- updated certified operating statement and rent roll for the Seniors Housing Property; and
- a survey showing any new Improvements on the Seniors Housing Property.

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

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

Section 418 Credit Enhancement Mortgage Loans and Multifamily Affordable Housing Properties

418.01 Bond Transactions and Credit Enhancement Mortgage Loans

For any Credit Enhancement Mortgage Loan where Fannie Mae is providing credit enhancement for tax-exempt multifamily housing Bonds, the Borrower must provide the Servicer with a copy of the compliance monitoring statement required under the Bond Documents. If the Borrower's statement reflects noncompliance with the low- and moderate-income tenant occupancy requirements set forth in the

Affordable Regulatory Agreement, or if the Borrower fails to provide the statement to the Servicer, the Servicer must notify Multifamily Asset Management, and retain the compliance monitoring statement in its Servicing File.

418.02 Compliance Issues Relative to Bond Credit Enhancement Transactions

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

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

418.03 Monitoring Compliance; Notification of Noncompliance

418.03A Affordable Regulatory Agreement

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

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

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

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

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

The Servicer must promptly forward to Multifamily Asset

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

418.04 Multifamily Affordable Housing (MAH) Properties

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

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

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

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

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

418.05 Low-Income Housing Tax Credits

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

- copies of the tax and other compliance forms specified in Part III, Chapter 7: Multifamily Affordable Housing Properties; and
- Borrower certifications of the Property's compliance with the requirements of the Internal Revenue Code regarding Low-Income Housing Tax Credits; and

- if the Low-Income Housing Tax Credits have not yet been syndicated, monthly reports from the Borrower detailing the Borrower’s progress in syndicating the tax credit allocation until the syndication is completed.

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

418.06 Enhanced Resident Services

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

418.07 Expanded Housing Choice

A Mortgage Loan with an Expanded Housing Choice pricing incentive requires additional monitoring.

Fannie Mae:

- may conduct fair housing testing for a Mortgage Loan delivered with an Expanded Housing Choice pricing incentive; and
- will notify the Servicer if the fair housing testing or any other information reveals the Borrower is not complying with Part III, Chapter 23: Expanded Housing Choice; and may, for any noncompliance:
  - require the Borrower's employees to complete fair housing training;
  - require Supplemental Annual Loan Agreement

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

- notify the Borrower it is in default.

The Servicer must:

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

If the Borrower...	The Servicer must...
Fails to submit the December 31 rent roll or rent schedule for the prior year within 120 days after the end of the calendar year	• send the Borrower a Reservation of Rights Letter (Form 4804) specifying: - the rent roll must be submitted within 30 days; and - if not submitted, the Expanded Housing Choice Monetary Penalty will be due per the Modification to Multifamily Loan and Security Agreement (Expanded Housing Choice) (Form 6273); and • submit a Non-Monetary Default Borrower Request in the MAMP.
Fails to submit the December 31 rent roll or rent schedule for the prior calendar year within the 30-day period after receipt of the Reservation of Rights Letter	collect from the Borrower and remit to Fannie Mae the Expanded Housing Choice Monetary Penalty per Form 6273.
Fails to submit any required Expanded Housing Choice Monetary Penalty per Form 6273	• send the Borrower a Reservation of Rights Letter (Form 4804) stating the Borrower is in default; and • submit a Non-Monetary Default Borrower Request in the MAMP.
Fails a first round of fair housing testing	ensure the Borrower conducts fair housing training for its employees per Fannie Mae's requirements.

If the Borrower...	The Servicer must...
Fails a second round of fair housing testing	• ensure the Borrower conducts additional fair housing training for its employees per Fannie Mae's requirements; and • require the Borrower to submit Supplemental Annual Loan Agreement Certification (Expanded Housing Choice) (Form 6620.Supplemental.Expanded Housing Choice).
Fails to complete any required fair housing training within the required time frame	• send the Borrower a Reservation of Rights Letter (Form 4804) stating the Borrower is in default; and • submit a Non-Monetary Default Borrower Request in the MAMP.
Fails to provide any required Supplemental Annual Loan Agreement Certification (Expanded Housing Choice) (Form 6620.Supplemental.Expanded Housing Choice)	• send the Borrower a Reservation of Rights Letter (Form 4804) stating the Borrower is in default; and • submit a Non-Monetary Default Borrower Request in the MAMP.
Fails a third round of fair housing testing	• ensure the Borrower enters into a remedial housing plan with Fannie Mae per Form 6273; and • submit a Non-Monetary Default Borrower Request in the MAMP.

If the Borrower...	The Servicer must...
Is otherwise determined not to be complying with Part III, Chapter 23: Expanded Housing Choice	• send the Borrower a Reservation of Rights Letter (Form 4804) stating the Borrower is in default; and • submit a Non-Monetary Default Borrower Request in the MAMP.

418.08 HAP Contract Approval and Releasing Restabilization Reserve

The Servicer is delegated the authority to:

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

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

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

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

Section 419 Sponsor-Dedicated Workforce Housing Properties

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

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

Section 420 MH Communities with Tenant Site Lease Protections

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

- a certified copy of the current residential MH Site Lease form;

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

The Servicer must:

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

raised MH Site Lease rents after required notice);

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

Section 421 Single Asset Entity Conversion

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

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

Section 422 Loan Document Amendments

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

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

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

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

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

Section 423 Maturing Mortgage Loans

423.01 Written Policy

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

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

423.02 Refinance Eligibility

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

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

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

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

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

423.03 Borrower Communications

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

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

Within 6 months of the Maturity Date, the Servicer must aggressively pursue a maturity solution for any Mortgage Loan that "Does Not Meet Criteria" until the Borrower provides written proof of a payoff plan, which may include a certified escrow letter, contact information for the new lender with appropriate follow-up by the Servicer, or other reasonable evidence.

423.04 Fannie Mae Communications

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

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

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

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

Underwritten Debt Service Coverage Ratio

Ratio of Underwritten Net Cash Flow to the annual debt service for a Mortgage Loan amount based on a level debt service payment with the applicable amortization, and calculated per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis, as adjusted for the applicable products and features in Part III.

Synonyms

Underwritten DSCR

Appraisal

Written statement independently and impartially prepared by a qualified ~~appraiser~~Appraiser stating an opinion of the Property's market value

- as of a specific date, and
- supported by the presentation and analysis of relevant market information.

Synonyms

Appraisals
Appraisal's

Appraisal Net Cash Flow

Appraiser's estimated Property Net Cash Flow per the Appraisal.

Synonyms

Appraisal NCF

Appraiser

Person engaged to estimate a Property's market value per USPAP.

Synonyms

Appraiser's

- ## Down Unit

Unit currently not rentable in the normal course of business due to requiring more than routine maintenance and repairs.

Synonyms

Down Units

- ## Effective Gross Income

On an annual basis or any specified period, the total of Net Rental Income plus other income per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products and features in Part III.

Synonyms

EGI

- ## Environmental Site Assessment

Investigation and resulting report (Phase I ESA or Phase II ESA) conducted per Environmental Due Diligence Requirements (Form 4251), identifying if a Property has Recognized Environmental Conditions or Business Environmental Risks.

Synonyms

ESA
Environmental Site Assessments

- ## FIRREA

Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

- ## Net Rental Income

On an annual basis or any specified period, the net rental income 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

NRI

- ## Outside Party

Person you retain to perform services for multifamily Mortgage Loans (e.g., Appraisers, inspectors, Correspondents, law firms, engineers, environmental consultants, and Brokers, title companies, or title agents).

Synonyms

Outside Parties

- ## Underwriting Value

Value of the Property determined by the Lender to size the Mortgage Loan per ~~Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation~~Appraisal and Valuation (21541).

- ## Underwritten Capitalization Rate

Ratio, expressed as a percentage, of the

- Underwritten Net Cash Flow, divided by
- Underwriting Value.

- ## Underwritten Net Cash Flow

Net Cash Flow as adjusted by the Lender per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products and features in Part III.

Synonyms

Underwritten NCF

Underwritten Net Operating Income

Net Operating Income as adjusted by the Lender per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products and features in Part III.

Synonyms

Underwritten NOI