



Fannie Mae®

Multifamily Selling and Servicing Guide

Effective as of December 13, 2024

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Summary of Changes

HIGHLIGHTS

Effective for Mortgage Loans placed Under Application on or after December 13, 2024, updated insurance information in:

- Part II, Chapter 5: Property and Liability Insurance; and
- Part V, Chapter 4: Asset Management: Loan Document Administration.

Primary Changes

■ Edited Part II, Chapter 5: Property and Liability Insurance to:

- update information for:
 - general insurance;
 - insurance exceptions;
 - minimum coverage amounts;
 - ordinance or law insurance; and
 - catastrophic risk insurance including
 - windstorm,
 - flood,
 - earthquake, and
 - terrorism;
 - liability insurance including
 - general commercial,
 - professional, and
 - commercial auto liability; and
 - seismic hazard and risk factors;
- add new information for
 - deductibles, and



- Risk Retention Groups and Captive Insurers; and
- move various asset management requirements to Part V, Chapter 4: Asset Management: Loan Document Administration.
- Updated Part V, Chapter 4: Asset Management: Loan Document Administration, Section 413: Property and Liability Insurance for:
 - timelines;
 - insurance exception documentation;
 - Captive Insurers; and
 - Unrated Risk Retention Groups and Captive Insurers.

Questions

Please contact Jennifer Clements at (202) 752-5988, or jennifer_d_clements@fanniemae.com, with any questions.



Chapter 5 Property and Liability Insurance

Section 501 Property and Liability Insurance

501.01 General Insurance – Applies to All Policies

501.01A Generally

➔ Guidance

When terms or acronyms for insurance forms and policies are capitalized in this Chapter, they refer to Insurance Services Office (ISO) forms and policies or their equivalent. Other capitalized terms and acronyms have standard insurance industry meanings.

☑ Requirements

As of the Mortgage Loan Origination Date, you must ensure each Property must be covered by compliant property insurance and liability insurance for the term of the Mortgage Loan. If the Borrower fails to maintain any required insurance on a Property, you

You must obtain the required coverage.

All insurance policies must:

- list the Borrower as a named insured;
- be written on a per occurrence basis, except for earthquake insurance and professional liability Insurance, which may be written on a per occurrence or claims-made basis;
- include a provision requiring the carrier to notify each Mortgagee and/or Additional Insured in writing at least 10 days before policy cancellation for non-payment of premium and 30 days before cancellation for any other reason, unless the Loan Documents expressly require the Borrower to notify the Lender promptly of any notice of cancellation it receives;
- are written on a per occurrence basis, except the following, which may be written on a per occurrence or claims-made basis:
 - earthquake insurance;
 - directors' and officers' insurance;
 - professional liability insurance; and
 - general liability insurance for Seniors Housing Properties only



when combined with professional liability insurance;

- unless the Loan Documents expressly state otherwise, require the carrier to notify the named Mortgagee and/or Additional Insured in writing
 - at least 10 days before policy cancellation for non-payment of premium, and
 - 30 days before cancellation for any other reason;
- except for professional liability insurance, name ~~Fannie Mae as Additional Insured on all liability insurance and excess/umbrella insurance;~~ and:
 - Fannie Mae as Additional Insured on
 - general liability insurance, and
 - excess/umbrella insurance; and
 - "Fannie Mae, its successors, and assigns" as Mortgagee and Loss Payee on property insurance; and
- ~~contain a mortgagee clause and loss payable clause for the benefit of Fannie Mae, its successors, and assigns.~~
- use Replacement Cost valuation; however, coverage for roofs may use
 - Actual Cash Value, or
 - Replacement Cost valuation.

~~All property insurance policies must use Replacement Cost valuation, however, coverage for roofs may use Actual Cash Value or Replacement Cost valuation.~~

➔ Guidance

~~All requirements apply to the review~~ You should:

- obtain the advance cancellation notice for the benefit of each Mortgagee and Additional Insured from the insurance carriers whenever possible; or
- if the insurer will not provide advance cancellation notices, ensure the Loan Documents were not modified in any manner limiting:



- the Borrower's obligation to promptly inform you of any notice of cancellation it receives from an insurance carrier; or
- any recourse liability of the Borrower or any Guarantor for failing to maintain all insurance coverages required by the
 - Loan Documents, and
 - Guide.

When a Property management company provides insurance, you perform before closing as well as to should confirm the Servicer's Borrower annual compliance review.

You are expected to obtain the advance cancellation notice for the benefit of each Mortgagee and is listed as an Additional Insured from on the insurance carriers whenever possible applicable policies. When that is not possible, you should ensure that the final Loan Documents have not been modified in any manner that limits

- the Borrower's obligation to provide prompt notice to the Lender of any notice of cancellation it receives from an insurance carrier, or
- any recourse liability of the Borrower or any Guarantor as a result of any failure to maintain all insurance coverages required by the Loan Documents.

Below is an An acceptable mortgagee clause. is:

Fannie Mae, its successors and/or assigns, as their interest may appear
c/o [Lender Name]
Lender's Street Address or PO Box
Lender's City, State and Zip Code

Operating Procedures

If you are the insurer will not able to obtain the provide advance cancellation notice from any insurance carrier notices, you must retain evidence of your attempts to obtain such notice provisions in your Servicing File. must include

- evidence of your attempts to obtain the notice provisions, and



- a copy of the state statute regarding cancelation notification.

501.01B Blanket and Other Policies Covering Multiple Properties

☑ Requirements

~~The coverage provided by a blanket policy~~You must be as good as, or better than, a single property insurance policy. The Property ensure:
~~must be listed and identified in the policy or associated schedules.~~

- any blanket policy coverage is as good as, or better than, a single property insurance policy; and
- the Property is listed and identified in the policy or associated schedules.

➔ Guidance

A blanket policy ~~includes~~may include

- blanket policies,
- blanket programs,
- first loss limit policies,
- first loss policies,
- layered programs,
- master policies,
- master programs,
- property programs,
- pooled insurance,
- scheduled limit policies.
- pooled programs,
- shared limit policies, and
- similar programs insuring multiple locations under the same insurance policy.

~~Blanket policies are acceptable as long as~~You may accept a blanket policy if



- all other requirements are met, and
- the Terms and Conditions endorsement does not reduce, limit, or exclude any required coverage.

When evaluating a blanket policy or multiple property policies, you should consider ~~the following~~:

- Are the required coverages adequate for the ~~subject property or properties~~ Property?
- If the blanket policy limits are less than 100% of the total insurable value of the covered properties, is the shortfall warranted by high policy limits and geographic dispersion?
- If the blanket policy covers high catastrophic exposure in a geographically concentrated area, is the limit adequate for the exposure, or should the Borrower obtain additional coverage?

Programs insuring properties that are not under common ownership with the Borrower or a Key Principal, Principal, Sponsor, or Affiliate of the Borrower, or managed by the same property management company, may provide evidence of insurance that appears to be a standard layered program.

You should look for red flags signaling that a program may not be a standard layered program, such as:

- ~~a significant savings in premium when a Borrower adds the Property to an existing policy; or~~
- the Borrower or Sponsor is not the first named insured;
- the premium significantly decreased when the Property was added to an existing policy; or
- having a large, rounded coverage limit for property insurance.

You may confirm common ownership through an insurance broker or agent. If the covered properties are not related by ownership or under the same property management, you ~~are expected to~~ should also evaluate the insurance administrator, considering ~~factors such as the acceptability of its business practices, possible payment of claim by the administrator, years in business, etc.~~ This evaluation is in addition to ~~the other analysis expected for blanket policies.~~



- the acceptability of its business practices,
- possible payment of claims, and
- years in business, etc.

Operating Procedures

You must document your analysis of any blanket policy in your Servicing File

- clearly document your analysis of any blanket policy (related or unrelated entities) in your Servicing File, and
- include supported conclusions.

501.01C Risk Retention Groups and Captive Insurance

Requirements

You must ensure any Risk Retention Group or Captive Insurer has a rating of at least:

- A- / VI from A.M. Best Company; or
- A from Demotech, Inc.

For any Risk Retention Group or Captive Insurer that is not satisfactorily rated, before Rate Lock, you must:

- obtain and review the applicable information in the Unrated Risk Retention Group or Captive Insurer table; and
- submit a
 - written summary, and
 - recommendation for approval, explaining
 - any non-compliant requirements,
 - any adverse findings, and
 - your rationale for recommending approval.



Unrated Risk Retention Group or Captive Insurer	
Document/Entity	Description
<u>Certificate of Authority (CA)</u>	<p><u>State-issued license to an insurance company to conduct business, and includes the</u></p> <ul style="list-style-type: none"> • <u>date of authority,</u> • <u>complete Captive Insurer name, and</u> • <u>state of domicile.</u>
<u>State Examination Report</u>	<p><u>Report covering a specific timeframe that:</u></p> <ul style="list-style-type: none"> • <u>reviews the company's:</u> <ul style="list-style-type: none"> - <u>balance sheet (including assets, liabilities, capital, and surplus);</u> - <u>statement of income;</u> - <u>investments;</u> - <u>premiums;</u> - <u>reinsurance assumed and ceded;</u> - <u>unpaid losses and loss adjustment expense;</u> <u>and</u> <ul style="list-style-type: none"> - <u>losses and loss adjustment expense incurred; and</u> • <u>ascertains its:</u> <ul style="list-style-type: none"> - <u>financial condition;</u> - <u>ability to fulfill obligations; and</u> - <u>compliance with applicable state laws and regulations.</u>
<u>Actuarial Report</u>	<p><u>Report culminating with a statement of actuarial opinion (minimum requirement) after evaluating, opining, and certifying the adequacy of the Captive Insurer's</u></p> <ul style="list-style-type: none"> • <u>open and paid losses,</u> • <u>loss adjustment expense reserves,</u> • <u>capital, and</u> • <u>surplus.</u>
<u>Loss History</u>	<p><u>Frequency and severity of insurance losses covered by the Captive Insurer's policy during a specific timeframe.</u></p>



Unrated Risk Retention Group or Captive Insurer	
Document/Entity	Description
<u>Reinsurance and/or Fronting Company</u>	<u>Reinsurance is when an insurer transfers all or part of a risk to another insurer to reduce the risk for the first insurance.</u> <u>Fronting company is using a licensed, admitted insurer to issue an insurance policy on behalf of a self-insured organization or Captive Insurer without intending to transfer any of the risk. The risk of loss is retained by the self-insured or Captive Insurer with an indemnity or reinsurance agreement.</u>
<u>Captive Insurer</u>	<u>Captive Insurer is either a:</u> <ul style="list-style-type: none"><u>• single parent captive (pure captive) - when an insurance subsidiary insures the loss exposures of its parent company or single entity; or</u><u>• group captive – a captive owned by several different companies who are normally</u><ul style="list-style-type: none"><u>- from the same industry, and</u><u>- have similar risks.</u>

➔ Guidance

Captive Insurers (and similar arrangements):

- may have lower capitalization requirements than traditional insurance companies; and
- are not usually rated by a recognized rating agency.

For Captive Insurers, you should:

- confirm they
 - are financially stable, and
 - have adequate funds to cover potential losses; and
- review additional documents as warranted.



Operating Procedures

You must submit all documents for unrated Captive Insurers or Risk Retention Groups:

- through DUS Gateway, for new Mortgage Loan submissions; and
- annually through the MAMP, for Portfolio Mortgage Loans.

501.01C Insurance Carrier Rating

501.01D

Requirements

All property and liability insurance carriers for new policies must:

- if rated by A.M. Best Company, have a
 - general policyholder rating of A or better, and
 - financial size category of VI or better; or
- if rated by Demotech, Inc., have a
 - Financial Stability Rating of A or better, and
 - policyholder surplus of at least \$40 million.

For any existing insurance policy (at origination or afterward), the carrier must:

- if rated by A.M. Best Company, have a
 - general policyholder rating of B++ or better, and
 - comply with the rating requirements for new policies at renewal;
or
- If rated by Demotech, Inc., comply with the rating requirements for new policies.

This rating requirement does not apply to the following coverages:

- state wind pools or state funds, if they are the only coverages that can be obtained for a Property; or



- flood insurance issued by the National Flood Insurance Program (NFIP) or written by companies approved under the NFIP's Write Your Own program.

Per the Loan Documents, you must require the Borrower to immediately obtain replacement coverage with a compliant carrier, even if the policy has not yet expired, if a carrier is downgraded below

- B++, if rated by A.M. Best Company, or
- A, if rated by Demotech, Inc.

Requirements

You do not need to rate

- State pools or funds, or
- NFIP policies.

All Other Insurance Carrier Ratings	
You must ensure...	The insurance carrier...
For a new policy	<ul style="list-style-type: none"> • for A.M. Best Company, has a <ul style="list-style-type: none"> - general policyholder rating of A- or better, and <ul style="list-style-type: none"> - financial size category of VI or better; or • for Demotech, Inc., has a Financial Stability Rating of A or better.
For an existing policy (at origination or afterward)	<ul style="list-style-type: none"> • for A.M. Best Company, <ul style="list-style-type: none"> - has a general policyholder rating of B++ or better, and - complies with the rating requirements for new policies at renewal; or • for Demotech, Inc., complies with the rating requirements for new policies.

 Guidance

A new policy is one that is not already in force, and is most common for an acquisition.



- not already in force, and
- most common for an acquisition.

An existing policy is most common for a refinance or when the Property is added to a policy that the Borrower already has in force.

- most common for a refinance, or
- when the Property is added to a policy that the Borrower already has in force.

Operating Procedures

If a carrier providing an existing insurance policy has an A.M. Best Company rating below A-, you must retain evidence of the insurance carrier's rating in your Servicing File until the policy is renewed. You must also monitor it on a quarterly basis to confirm that the rating is not downgraded below B++.

501.01D Term 501.01E

Guidance

Policies should have a term of at least 12 months. For new Mortgage Loans, a Property may be added mid-term to an existing 12-month policy.

You may accept a policy term of less than 12 months if: when it expires, the policy will be renewed for at least 12 months.

- when it expires, the policy will be renewed for at least 12 months; and
- the shorter term is not because of non-renewal or cancellation by the carrier.

501.01E Payment of Premium 501.01F



☑ Requirements

Premiums for all required insurance policies You must either be:

- paid in full annually; or
- payable in installments, for which you have receipts confirming timely payment.
- ensure premiums for all required insurance policies are either:
 - paid in full annually; or
 - payable in installments, for which you have receipts confirming timely payment;
- not provide premium financing to the Borrower; and
- only permit third-party premium financing if the financing agreement:
 - has no negative impact on
 - you,
 - Fannie Mae, or
 - the Mortgage Loan collateral;
 - does not include any conditions that could prevent you or Fannie Mae from receiving the insurance proceeds; and
 - the Modifications to Multifamily Loan and Security Agreement (Financing of Insurance Premiums) (Form 6272) was executed.

Premium financing is permitted if the financing agreement has no negative impact on you, Fannie Mae, or the Mortgage Loan collateral, and does not include any conditions that could prevent you or Fannie Mae from receiving the insurance proceeds. If the Borrower finances premiums, you must review a copy of the financing agreement and confirm that timely payment of each premium has been made.

- review the financing agreement,
- confirm timely payment of each premium was made, and
- retain in the Servicing file
 - the financing agreement, and
 - evidence of premium payments.



→ Guidance

You should attempt to reinstate the annual payment of premiums at renewal of any policy.

Any financing agreement should include a requirement that you receive a notice of cancellation for any nonpayment of premium.

🌿 Operating Procedures

For **Mortgage Loans** where no insurance escrows are being collected, you must obtain evidence annually that all policies have been paid in full.

If the **Borrower** finances premiums, you must retain a copy of the financing agreement in your **Servicing File**. You must also keep receipts confirming timely payments.

501.01G Insurance Compliance and Data

🌿 Operating Procedures

You must complete an annual insurance compliance checklist, including the following information for all insurance coverages, and place it in your **Servicing File**:

- name of carrier, all insured parties, and the **Borrower**;
- coverage amount;
- deductible amount(s);
- policy term;
- description of property insured; and
- coinsurance percentage, if applicable.

501.01F Evidence of Insurance

501.01G

☑ Requirements

You must have temporary or permanent evidence of insurance at the closing of the **Mortgage Loan** and by each renewal date.



You must have permanent evidence of insurance within 90 days of delivering the [Mortgage Loan](#) to Fannie Mae and each renewal date.

- [temporary or permanent evidence of insurance when the Mortgage Loan closes](#); and
- [permanent evidence of insurance within 90 days after Mortgage Loan Delivery](#).

➔ Guidance

For temporary evidence of insurance, the following forms are acceptable:

- [ACORD 28 — Evidence of Commercial Property Insurance](#) (most recent version or, if applicable, the state-approved form), combined with [ACORD 25 — Certificate of Liability Insurance](#);
- [ACORD 75 — Insurance Binder](#);
- [MBA Evidence of Insurance — Commercial Property Form](#); and
- if an ACORD certificate is not available, a joint letter from the [Borrower](#) and its licensed insurance broker/agent certifying that all coverages, terms, and conditions meet the requirements.

For permanent evidence of insurance, the following forms are acceptable:

- An original or duplicate copy of the insurance policy.
- For [Properties](#) securing [Mortgage Loans](#) with a [UPB](#) of \$10 million or less, the [MBA Evidence of Insurance — Commercial Property Form](#).
- For [Properties](#) securing a [Mortgage Loan](#) with a [UPB](#) in excess of \$10 million, or for blanket policies with multiple layers, duplicate copies of the primary insurance policies, which should:
 - include a letter (signed and dated on company letterhead) from an individual authorized to execute evidence of insurance on behalf of the insurance carriers issuing each policy; and
 - state that all policies follow the same terms, conditions, and exclusions as the primary policy, with any differences specified.
- For [NFIP](#) flood insurance, the [Policy Declaration page](#).



Acceptable Evidence of Insurance	
Acceptable Temporary Evidence Forms	Acceptable Permanent Evidence Forms
<ul style="list-style-type: none"> • <u>ACORD 28 – Evidence of Commercial Property Insurance (most recent version or, if applicable, the state-approved form), combined with ACORD 25 – Certificate of Liability Insurance.</u> • <u>ACORD 75 – Insurance Binder.</u> • <u>If an ACORD certificate is unavailable, a joint letter from the Borrower and its licensed insurance broker/agent certifying that all coverages, terms, and conditions meet the requirements.</u> • <u>For NFIP flood insurance:</u> <ul style="list-style-type: none"> - <u>the Policy Declaration page;</u> or - <u>a copy of the signed application and proof of payment.</u> 	<ul style="list-style-type: none"> • <u>An original or duplicate copy of the insurance policy.</u> • <u>For a Property securing a Mortgage Loan with a UPB:</u> <ul style="list-style-type: none"> - <u>less than or equal to \$10 million, the MBA Evidence of Insurance - Commercial Property Form; or</u> - <u>greater than \$10 million, or for blanket policies with multiple layers, duplicate copies of the primary insurance policies, which should:</u> <ul style="list-style-type: none"> ▪ <u>include a letter (signed and dated on company letterhead) from an individual authorized to execute evidence of insurance on behalf of the insurance carriers issuing each policy;</u> ▪ <u>state that all policies follow the same terms, conditions, and exclusions as the primary policy, with any differences specified; and</u> ▪ <u>for NFIP flood insurance, include the Policy Declaration page.</u>

The following are not acceptable forms of permanent evidence:

- ~~insurance policy declarations pages (except for an NFIP policy);~~
- ~~single policy endorsement;~~
- ~~insurance binders; and~~
- ~~certificates of insurance.~~



If an [MBA Evidence of Insurance – Commercial Property Form](#) is used, it should:

- be the most recent version or, if applicable, the state-approved form;
- be completed in its entirety;
- have an original signature of an individual authorized to execute the Evidence of Insurance on behalf of the insurance carriers issuing each policy; and
- in states where the form is filed and approved, be on the appropriate state form.
- [insurance policy declarations pages \(except for an NFIP policy\)](#);
- [single policy endorsement](#);
- [insurance binders](#); and
- [certificates of insurance](#).

Some insurance carriers use boilerplate policies that do not change from year to year. In such cases [if so](#), you should keep a specimen kit or library of such policies and endorsements and may place only the renewal [Declarations Page](#) in your [Servicing File](#):

as permanent evidence along with a list of endorsements.

- [should keep a specimen kit or library of such policies and endorsements](#); and
- [may place only the renewal Declarations Page in your Servicing File as permanent evidence along with a list of endorsements](#).

[Operating Procedures](#)

[Permanent evidence must be retained in your Servicing File. Policies must be collected annually.](#)

501.01H [Post Closing Insurance Exceptions](#)

[Requirements](#)

[Post-closing exception request submissions must include current information.](#)

[All exceptions, including those delegated, must be documented in the](#)



applicable business application.

You must determine compliance with this Section on an annual basis. Any request for an submit any insurance exception to the insurance requirements after origination and delivery of the Mortgage Loan request:

must be submitted on the Multifamily Exception Review Form – Insurance (Form 4638) through the MAMP

All supporting documentation must be included with the submission.

- through DUS Gateway with all applicable data fields completed in the system, not via an attached waiver document;
- at least 72 hours before Rate Lock; and
- with all supporting documentation.

➔ Guidance

Insurance exceptions granted by Fannie Mae are if the waiver is approved for the entire term of the Mortgage Loan term, unless otherwise specified it will be stated in the approval.

501.02 Property Insurance

501.02A Minimum Coverage Amounts

Requirements

Each Property You must have property insurance throughout the term of the Mortgage Loan. Coverage must be written on a Special Causes of Loss Form.

The coverage amount must be at least ensure:

- 100% of estimated insurable value for single-building Properties, and
- 90% of estimated insurable value for multiple-building Properties.
- each Property has property insurance throughout the Mortgage Loan term;
- the coverage is:



- written on a Special Causes of Loss Form, or its equivalent; and
- at least
 - 100% of estimated insurable value for a single-building Property, and
 - 90% of estimated insurable value for a multiple-building Property;
- if a blanket policy has scheduled limits per building, each building is insured to 100% of the estimated insurable value; and
- coinsurance does not exceed 90% on any coverage.

Coinsurance cannot exceed 90%.

The maximum deductible amount is based on the total insurable values of the Property;

insurance policy.

- is based on the total insurable values of the Property insurance policy;
- amounts, unless otherwise specified, apply to all insurance coverages required by:
 - Part II, Chapter 5: Property and Liability Insurance, Section 501.03: Catastrophic Risk Insurance; and
 - Part II, Chapter 5: Property and Liability Insurance, Section 501.04: Liability Insurance;
- for the peril of wind/hail (unrelated to a catastrophic peril), must not exceed 3% of the insurable Property value; and
- for all other perils, must comply with the following table.

If the insurable value is...	The maximum deductible amount per occurrence is...
Less than \$5 million	\$15,000 <u>\$25,000</u>
Equal to or greater than \$5 million, but less than \$50 million	\$25,000 <u>\$50,000</u>



Equal to or greater than \$50 million, but less than \$100 million	\$100,000
Equal to or greater than \$100 million	\$250,000

These deductible amounts apply to all insurance coverages required by Part II, Chapter 5: Property and Liability Insurance, Section 501.03: Catastrophic Risk Insurance and Part II, Chapter 5: Property and Liability Insurance, Section 501.04: Liability Insurance, unless a different amount is specified.

➔ Guidance

100% coinsurance with the Agreed Value endorsement is acceptable. Renewal of the Agreed Value endorsement is not automatic.

- is not automatic, and
- must be confirmed at each renewal.

You should:

- assess the Borrower's ability to pay any deductible, even compliant ones:
 - before accepting any deductibles; and
 - throughout the policy term;
- determine the high deductible financial exposure by considering total out of pocket expenses rather than only the difference between the
 - maximum allowable deductible, and
 - requested/actual deductible; and
- if insurance coverage is provided on a management company's or unrelated entities' master property program, then only use the Borrower's owned or related properties to determine the maximum deductible.

A margin clause:

- should not be used to determine compliant property insurance limits; and



- may contain provisions limiting additional coverage availability.

501.02B Aggregate Deductibles

Guidance

You may accept a Property and Liability policy that includes aggregate deductibles. The aggregate deductible may be higher than the maximum deductible required per Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts.

Requirements

If you accept a Property and Liability policy that includes aggregate deductibles, you must:

- confirm the aggregate deductible amount is fully funded and held by:
 - the Borrower in a segregated bank account; or
 - you in the Tax and Insurance escrow; and
- require any claim checks to:
 - list you as payee c/o Fannie Mae; and
 - be considered insurance loss proceeds per the Loan Documents.

501.02B Business Income (including Rental Value) Insurance

501.02C

Requirements

Each Property You must have business income insurance (including rental value insurance), covering all perils, including windstorm, flood, earthquake, and terrorism.

Coverage must be based on either ensure:

- Actual Loss Sustained for 12 months, or
- Effective Gross Income for the most recent annual reporting period.
- each Property has business income insurance (including rental value insurance), for all required coverages, including



- ordinance or law (Coverage D),
- windstorm,
- flood,
- earthquake, and
- terrorism, etc.;
- coverage is based on:
 - Actual Loss Sustained for 12 months; or
 - the most recent annual reported (or annualized if annual financial are unavailable):
 - EGI; or
 - NOI plus continuing expenses, with a completed business income worksheet submitted by the Borrower's agent/broker;
- the maximum deductible for business income insurance does not exceed the greater of
 - the maximum deductible for the property insurance policy, or
 - a waiting period up to 72 hours; and
- coverage for a Mortgage Loan with a UPB of \$25 million or more includes a 90-day Extended Period of Indemnity option.

The maximum deductible for business income insurance cannot exceed the greater of the maximum deductible for the property insurance policy or a waiting period of up to 72 hours.

Coverage for a Mortgage Loan with a UPB of \$25 million or more must include a 90-day Extended Period of Indemnity option.

Guidance

If a type of coverage is required but is excluded by the property insurance policy (e.g., ordinance or law), and the Borrower purchases the coverage separately, or adds it to the property insurance policy, you should confirm that business income insurance is also provided for the covered peril in order to satisfy the requirement.



501.02C Ordinance or Law Insurance

501.02D

Requirements

Each You must ensure every Property that is non-conforming under any current land use law or was constructed 25 years or more before closing must have has ordinance or law insurance. In this case, the Property must have:

- Coverage A: Loss of Undamaged Portion, in an amount equal to
 - 100% of the insurable value of the Property, less the damage threshold specified by the local building ordinance, or
 - 50% of the insurable value, if the local ordinance does not specify a threshold;
- Coverage B: Demolition/Debris Removal Cost, in a minimum amount of 10% of the insurable value of the Property; and
- Coverage C: Increased Cost of Construction, in a minimum amount of 10% of the insurable value of the Property;
- for all perils, even if insured on a standalone policy; and
- if the Property
 - is non-conforming under any current land use law or ordinance, and cannot be rebuilt "as is", and/or
 - was constructed 25 years or more before Delivery.

Ordinance or law insurance is not required if the:

- Property was constructed 25 years or more before Delivery, but was substantially rehabilitated (i.e., all fixtures and building materials were removed down to the studs, then rebuilt to then current building codes); or
- Mortgage Loan Origination Date was before February 3, 2014 and the Property's characteristics are legally conforming, regardless of



the build date.

Coverages	If ordinance or law insurance is required, you must ensure the Property has all of the following...
Coverage A	Loss of Undamaged Portion, in an amount equal to <ul style="list-style-type: none">• 100% of the Property's insurable value, minus the damage threshold specified by the local building ordinance, or• 50% of the insurable value, if the local ordinance does not specify a threshold.
Coverage B	Demolition/Debris Removal Cost equal to at least 10% of the Property's insurable value.
Coverage C	Increased Cost of Construction equal to at least 10% of the Property's insurable value.

➔ Guidance

A Property is non-conforming if it cannot be rebuilt "as is" under current law. Examples of land use laws include building, zoning, energy management, green, and similar ordinances.

Rebuilding "as is" refers to the ability to build the same square footage within the same building footprint without increasing the non-conformity, as defined by the local ordinance. You should determine the feasibility of rebuilding within any time frame required by the ordinance.

Ordinance and law insurance is needed for an older Property, even if it is legally conforming under current zoning law, because the cost of construction will likely be significantly higher due to changes in building codes and construction requirements.

For example:

- When a Property has an insurable value of \$10 million and the damage threshold of the local building ordinance is 75%, \$2.5 million is the amount of coverage required for Coverage A. If A, B, and C are combined, then the required amount is \$2.5 million plus \$2 million, or \$4.5 million total.



- When Coverages A, B, and C are combined, the minimum limit is the Coverage A amount plus 20% of the insurable value of the Property.
- When Coverages B and C are combined, the minimum limit is 20% of the insurable value of the Property.

Properties that closed before February 3, 2014 are not required to have ordinance or law coverage if they are Legal Conforming and have a build date of 25 years or more before closing.

➔ Guidance

Examples of ordinance or laws include

- bulk restrictions,
- building,
- zoning,
- energy management,
- green, or
- Fair Housing Act accessibility.

Rebuilding "as is" refers to the ability to build the same square footage within the same building footprint without increasing the non-conformity, as defined by the local ordinance. You should determine the feasibility of rebuilding within any time frame required by the ordinance.

Ordinance and law insurance maybe needed, even if it is legally conforming under current zoning law, because the construction cost will likely be significantly higher due to changes in building codes and construction requirements.

Some municipalities have no zoning districts. This primarily refers to use. Usually, buildings are still subject to building and safety codes; therefore, coverage is required.



Required Limits Example	
If...	Then the required coverage is...
<u>A Property's insurable value equals</u> <ul style="list-style-type: none">• <u>\$10 million, and</u>• <u>the damage threshold of the local building ordinance is 75%</u>	<u>100% of the Property's insurable value, minus the damage threshold specified by the local building ordinance (i.e., \$10 million - \$7.5 million = \$2.5 million for Coverage A).</u>
<u>Coverages A, B, and C are combined</u>	<u>the Coverage A amount plus 10% of the Property's insurable value for Coverage B plus 10% of the Property's insurable value for Coverage C (i.e., \$2.5 million + \$1 million + \$1 million = \$4.5 million).</u>
<u>Coverages B and C are combined</u>	<u>10% of the Property's insurable value for Coverage B plus 10% of the Property's insurable value for Coverage C (i.e., \$1 million + \$1 million = \$2 million).</u>

If law and ordinance insurance is required, the Increased Period of Restoration endorsement (Coverage D) is required. Coverage D for law and ordinance insurance:

- extends the business:
 - income and extra expense coverage; and
 - additional time to restore operations when delayed due to enforcement of building or zoning laws; and
- is paid from the Property's business income/rent loss coverage.

Without this Increased Period of Restoration endorsement, business income coverage does not include any "increased period" that may be necessary due to enforcement of an ordinance or law.

When evaluating this coverage you should ensure the business income/rent loss limit is adequate to reflect the increased period of restoration.



501.02D Boiler and Machinery / Equipment / Mechanical Breakdown Insurance

501.02E

Requirements

Each **Property** located in a state that regulates centralized HVAC boiler, water heater, or other high-pressure vessels **You** must have boiler and machinery insurance if it has such equipment. ensure:

The coverage amount must be at least 100% of the insurable value of each building that houses the equipment.

- a **Property** with any high-pressure, centralized HVAC boiler, water heater, or other vessel that is in operation and regulated by the state or municipality where the **Property** is located has full boiler and machinery coverage; and
- the coverage equals at least 100% of the insurable value of each building housing the equipment.

501.02E Builder's Risk Insurance

501.02F

Requirements

If property insurance coverage is excluded during construction or significant renovation or restoration, the **Property** **You** must have builder's risk insurance during such activity. ensure:

The coverage amount must be at least 100% of the completed value, on a non-reporting basis.

- if property insurance coverage is excluded during construction or significant renovation or restoration, the **Property** has builder's risk insurance during such activity; and
- the coverage equals at least 100% of the completed value, on a non-reporting basis.

501.02F Fidelity Bond / Crime Insurance

501.02G

Requirements

Each **Property** owned by a **Cooperative Organization** **You** must have



■ each Property owned by a Cooperative Organization has fidelity bond/crime insurance in an amount covering scheduled Cooperative Maintenance Fees for at least 3 months; and

■ the fidelity bond/crime insurance deductible does not exceed \$25,000.

■ each Property owned by a Cooperative Organization has fidelity bond/crime insurance in an amount covering scheduled Cooperative Maintenance Fees for at least 3 months; and

■ the fidelity bond/crime insurance deductible does not exceed \$25,000.

■ each Property owned by a Cooperative Organization has fidelity bond/crime insurance in an amount covering scheduled Cooperative Maintenance Fees for at least 3 months; and

■ the fidelity bond/crime insurance deductible does not exceed \$25,000.

501.02G Regional Perils Insurance

501.02H

Requirements

■ if a Property is in an area prone to geological phenomena, the property insurance coverage You must include those phenomena. ensure:

■ The coverage amount must be 100% of the insurable value.

■ if a Property is in an area prone to geological phenomena, the property insurance coverage includes those phenomena; and

■ the coverage equals 100% of the insurable value.

Guidance

■ Examples of geological phenomena include sinkhole, mine subsidence, volcanic eruption, and avalanche.

■ sinkhole,

■ mine subsidence,

■ volcanic eruption, and

■ avalanche.

501.03 Catastrophic Risk Insurance

501.03A Generally



☑ Requirements

If a Property is in an area prone to Catastrophic Events, it You must have the coverages required by this Section 501.03. ensure:

- a Property has the coverages required by Part II, Chapter 5: Property and Liability Insurance, Section 501.03: Catastrophic Risk Insurance for perils related to catastrophic loss if the Property is in an area prone to Catastrophic Events;
- the Property has a separate insurance policy if the Special Causes of Loss Form excludes a Catastrophic Event coverage that is required; and
- if ordinance or law coverage is required on the property policy, then coverage is obtained for catastrophic losses if the catastrophic peril is insured on a standalone policy.

501.03B Windstorm Insurance

☑ Requirements

The Property You must have separate windstorm insurance if ensure the Special Causes of Loss Form excludes any type of wind-related Catastrophic Event.

The coverage amount must be at least 100% of the insurable value. This valuation may not rely solely on Probable Maximum Loss (PML) calculations.

The deductible amount may not exceed the greater of:

- 10% of the insurable value;
- the applicable maximum amount in Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts;
or
- for the business income insurance (including rental value insurance), 15 days of income or equivalent.
- Property has separate windstorm insurance if the Special Causes of Loss Form excludes any type of wind-related Catastrophic Event;
- coverage equals at least 100% of the insurable value;
- valuation does not rely solely on Probable Maximum Loss (PML) calculations; and



- deductible does not exceed the greatest of
 - 10% of the insurable Property value,
 - the applicable maximum amount per Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts, and
 - for business income insurance, the greater of
 - the maximum deductible for the property insurance policy, or
 - an amount equal to 15 days of business income or equivalent.

➔ Guidance

A state if a business income insurance plan deductible is stated as a total dollar amount, state-managed windstorm, you should:

- calculate the deductible on a per day basis; and
- ensure the aggregate per day amount does not exceed 15 days of income.

For example:

If the business income requirement is \$1,000,000, and the policy indicates a business income deductible of \$100,000, and the maximum deductible allowed for the Property is the greater of (a) \$25,000, or beach erosion insurance pool (b) an amount equal to 15 days of income, the policy is acceptable for catastrophic windstorm coverage (i.e., not for non-catastrophic windstorm or other perils), if no other compliant since:

- \$1,000,000 divided by 365 equals \$2,740 per day;
- \$2,740 multiplied by 15 days equals \$41,095; and
- \$100,000 is higher than both the allowed \$25,000 Property deductible and the total 15-day calculation.

If catastrophic windstorm coverage is available, unavailable in the market, Fannie Mae will consider approving 1 of the following options:

- a state insurance plan; or



- state-managed insurance pool for
 - windstorm, or
 - beach erosion.

Catastrophic windstorm coverage:

- includes hurricane and tropical storm damage; and
- may be categorized or defined in the insurance policy using terms such as
 - named storm, or
 - tier one, etc.

If windstorm coverage is unavailable or is not economically feasible, you may submit the following for Pre-Review:

- a recommendation for a reasonable coverage amount, given the exposure and based on your knowledge of the Property and Borrower;
- all compelling reasons for approving the request;
- the Property's precise location;
- blanket analysis per Part II, Chapter 5: Property and Liability Insurance, Section 501.01B: Blanket and Other Policies Covering Multiple Properties;
- construction analysis; and
- any financial mitigants available.

501.03C Flood Insurance

Requirements

The You must ensure the Property must have has flood insurance if any income-producing Improvements or any non-income producing Improvements that support amenities are located in an SFHA Zone A or Zone V.

The coverage amount must be 100% of the insurable value of:



- the first 2 floors above grade and any Improvements below grade, plus
- all Fixtures and Goods located on the first 2 floors above grade and/or below grade (as defined in the Security Instrument).
- any income-producing Improvements or any non-income producing Improvements that support amenities are in an SFHA Zone starting with the letter A or V; or
- the Property is located within a Coastal Barrier Resources System (CBRS) or Otherwise Protected Area (OPA), regardless of if the Property is located in an SFHA.

The deductible amount may not exceed the greater of

A Mortgage Loan

- 5% of the insurable value of the Property;
- the applicable maximum amount in Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts; or
- for business income insurance (including rental value insurance), 15 days or equivalent.

If the coverage available under is ineligible for purchase if the NFIP Property is not sufficient to meet in:

- an SFHA; and
- a community that does not participate in the NFIP.

You must ensure the requirements set forth above coverage:

- meets the mandatory purchase requirements identified in
 - the Federal flood insurance statutes, and
 - any applicable Federal agency rulemaking and publication;
- has a waiting period no more than 15 days; and
- equals at least 100% of the insurable value of
 - the first 2 floors above grade and any Improvements below grade, plus
 - all Fixtures and Goods (as defined in the Security Instrument) located on the first 2 floors above grade and/or below grade.



You must ensure the deductible does not exceed the greatest of:

- 5% of the Property's insurable value;
- the applicable maximum amount in Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts; or
- for business income insurance,
 - the maximum deductible for the property insurance, or
 - a waiting period of up to 15 days or equivalent.

NFIP and Excess Flood Coverage	
If...	Then...
Coverage available under the NFIP is insufficient	the Borrower must purchase excess flood insurance covering the difference, up to the required coverage amount.
Per elevation certificates completed by a licensed land surveyor, engineer, or architect: <ul style="list-style-type: none"> • any of the building's Lowest Adjacent Grade (LAG) are above Base Flood Elevation (BFE); and • the Borrower confirms application for a Letter of Map Amendment (LoMA) 	<ul style="list-style-type: none"> • only NFIP insurance is required for those buildings, and • the maximum term for only NFIP insurance is 12 months.

To remove a Property/building from an SFHA, then the only an updated Borrower FEMA must have excess flood insurance or difference in conditions Standard Flood Hazard Determination Form (DIGSFHDF) insurance that either based on the following is acceptable:

- covers the difference, up to the required coverage amount, or
- if the required coverage amount is not economically feasible, covers an amount that you determine is reasonable, given the exposure.
- Letter of Map Amendment (LoMA);
- Letter of Map Revision (LoMR); or
- Letter of Determination Review (LoDR).



During the Letter of Map Amendment (LOMA) process only NFIP insurance is required. The maximum term for NFIP insurance during the LOMA process is 12 months.

- only NFIP insurance is required, and
- the maximum term for NFIP insurance is 12 months.

If any Improvements are reclassified as within an SFHA Zone starting with the letter A or Zone V after you deliver the Mortgage Loan, you must require the Borrower to obtain compliant flood insurance.

➔ Guidance

If all buildings do not require flood insurance, but the Property ingress is located in an SFHA, you should consider requiring business income insurance for excess flood to cover all buildings.

Flood insurance is not required if only unimproved portions of the Property, or non-income producing Improvements that do not support amenities at the Property, are located in an SFHA. Improvements that support amenities include structures such as clubhouses and pool houses. Improvements that do not support amenities are structures such as sheds, pump houses, and storage buildings.

Non-Income Producing Improvements	
Supporting amenities include...	Not supporting amenities include...
<ul style="list-style-type: none"> • clubhouses, and • pool houses. 	<ul style="list-style-type: none"> • sheds, • pump houses, and • storage buildings.

Business income insurance is not required for non-income producing Improvements.

Keep in mind You should consider that conditions may change over time and flood zones may be remapped. In certain cases, you

- conditions may change over time, and
- flood zones may be remapped.

You or Fannie Mae may require flood insurance for Improvements



outside of an SFHA Zone starting with the letter A or V, but within an area designated by FEMA as Zone X or Zone D (for example, if a Property's location is in an area subject to flooding due to storm water, or within close proximity to an SFHA boundary).

When determining whether excess flood insurance or DIC insurance is economically feasible, you may consider a DSCR reduction of 10 or more basis points as a reasonable measure or guide.

Before determining a lesser amount of excess flood insurance or DIC Insurance, or not requiring such coverage, you should have the Borrower provide you with at least 3 quotes or declination letters, and determine whether the Borrower is attempting to avoid purchasing coverage by applying to companies that do not write flood insurance or give artificially high quotes. If you are provided with a combination of quotes and declinations, quotes should be used to determine feasibility of coverage, and a limit of coverage that is economically feasible should be secured.

An acceptable deductible for DIC excess flood insurance is the coverage limit of the underlying NFIP policy.

Elevation certificates are not valid to determine if Improvements are in an SFHA.

You should obtain flood zone determinations from qualified third-party flood zone determination firms, and exercise care and sound judgment when selecting the firm. You should require the determination firm, and any monitoring company (if different), to:

- notify you whenever flood insurance is or becomes required, and
- continue monitoring after any servicing transfer.
- obtain flood zone determinations from qualified third-party flood-zone determination firms;
- exercise care and sound judgment when selecting the firm; and
- require the determination firm, and any monitoring company, to notify you whenever there is a flood zone change.

For business income insurance deductible, if a dollar amount is indicated, you should calculate the per day amount ensuring the deductible does not exceed the 15-day total amount allowed. See Part II, Chapter 5: Property and Liability Insurance, Section 501.03B:



Windstorm Insurance for a deductible calculation example.

Operating Procedures

You must obtain life-of-loan monitoring for each Property from a third-party flood-zone determination firm.

You are required to complete the most recent version of the Standard Flood Hazard Determination form issued by FEMA to determine whether any of the Improvements are located in an SFHA. You must keep a completed copy of this form in your Servicing File, including a signed copy of the Notice to Borrower of Special Flood Hazard and Federal Assistance (included in the Flood Determination Certificate).

If you permitted a reduction in the amount of excess flood insurance or DIC insurance, your analysis and related documentation supporting the economic feasibility and the amount of the reduction must be:

- included in your Servicing File, and
- submitted via the MAMP.
- obtain life-of-loan monitoring for each Property from a third-party flood-zone determination firm;
- complete FEMA's Standard Flood Hazard Determination form to determine if any Improvements are located in an SFHA; and
- retain in your Servicing File:
 - a completed copy of the form;
 - a signed copy of the Notice to Borrower of Special Flood Hazard and Federal Assistance (included in the Flood Determination Certificate); and
 - if you permitted a reduced amount of excess flood insurance,
 - your analysis, and
 - related documentation supporting the economic feasibility and reduction amount.

501.03D Earthquake Insurance

Requirements

The You must ensure the Property must have has earthquake insurance



if required by Fannie Mae based on. For any required coverage, ensure the Seismic Risk Assessment.

The coverage amount must be at least 100% of the insurable value.

The deductible amount may not exceed the greater of:

- 10% of the insurable value, or
- the applicable maximum amount in Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts.
- coverage is at least 100% of the insurable value;
- waiting period is no more than 15 days; and
- deductible does not exceed the greatest of:
 - 10% of the insurable Property value;
 - the applicable maximum amount per Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts; and
 - for business income insurance, the greater of
 - the maximum deductible for the property insurance policy, or
 - a 15-day waiting period.

Earthquake insurance may be required while the Property is being retrofitted.

➔ Guidance

For business income insurance deductible, if a dollar amount is indicated, you should calculate the per day amount ensuring the deductible does not exceed the 15-day total amount allowed. See Part II, Chapter 5: Property and Liability Insurance, Section 501.03B: Windstorm Insurance for a deductible calculation example.

✿ Operating Procedures

If retrofitting is required and not completed within the agreed timeframe, you must not accept earthquake insurance as a substitute.

501.03E Terrorism Insurance



☑ Requirements

Each **PropertyYou** must have terrorism insurance for property damage/casualty and liability exposures, unless

- it secures a **Mortgage Loan** with a **UPB** of less than \$25 million, and
- you performed a risk assessment, and it indicated no or low terrorism risk.

The coverage amount must be at least 100% of the insurable value of the **Improvements**.

The deductible amount may not exceed the greater of **ensure**:

- 20% of the insurable value, or
- the applicable maximum amount in **Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts**.
- **each Property** has terrorism insurance for property damage/casualty and liability exposures, unless
 - it secures a **Mortgage Loan** with a **UPB** less than \$25 million, and
 - you performed a risk assessment indicating no or low terrorism risk;
- the coverage is at least 100% of the **Improvements'** insurable value; and
- the deductible does not exceed the greatest of:
 - 20% of the insurable **Property** value;
 - the applicable maximum amount per **Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts**; and
 - for business income insurance,
 - the maximum deductible for the property insurance policy, or
 - a 15-day waiting period.

➔ Guidance

YourYou should ensure your risk assessment **considers**:



- concentrations of risk and overall exposures;
- the Property's location relative to potential terrorist targets, such as
 - tourist attractions,
 - power grids,
 - mass transportation facilities, and
 - government buildings; and
- how far reaching a terrorist event could be, for example a:
 - mass transit facility directly below the Property and an airport 5 miles away; and
 - biohazard or nuclear facility within the Property's vicinity.

For business income insurance deductible, if a dollar amount is indicated, you should consider calculate the Property location in relation to potential terrorist targets, such as tourist attractions, mass transportation facilities, urban areas, and government buildings per day amount ensuring the deductible does not exceed the 15-day total amount allowed. You should also consider concentrations of risk and overall exposures. See Part II, Chapter 5: Property and Liability Insurance, Section 501.03B: Windstorm Insurance for a deductible calculation example.

Operating Procedures

You must retain a copy of your risk assessment in your Servicing File.

501.04 Liability Insurance

Requirements

Each You must ensure each Property and Borrower must be is covered throughout the Mortgage Loan term by liability insurance for bodily injury, Property damage, and personal injury throughout the term of the Mortgage Loan

- bodily injury,
- Property damage, and



- personal injury.

501.04A Commercial General Liability Insurance

Requirements

The You must ensure the general liability insurance coverage amount must be at least

- \$1 million per occurrence/\$2 million general aggregate limit, plus
- excess/umbrella insurance as follows:

If the number of stories in the building is...	The minimum excess/umbrella insurance coverage is...
1 — 4	\$2 million
5 — 10	\$5 million
11 — 20	\$10 million
Over 20	\$25 20 million

The maximum deductible amount is based on the total insurable values of the Property deductibles:

insurance policy.

- apply to
 - general liability,
 - umbrella/excess liability, and
 - professional liability; and
- must be based on the Property's total insurable values of the Property insurance policy as follows:

If the insurable value is...	The maximum deductible amount per occurrence is...
Less than \$5 million	\$40,000 50,000
Equal to or greater than \$5 million, but less than \$50 million	\$50,000 100,000



Equal to or greater than \$50 million, but less than \$100 million	\$125,000 150,000
Equal to or greater than \$100 million	\$275,000

You may satisfy the maximum deductible amounts by any combination of the deductibles on the primary liability insurance and excess/umbrella insurance policies.

The maximum deductibles apply to all liability insurance.

→ Guidance

You may satisfy the insurance coverage requirements with:

- with any combination of primary liability insurance and excess/umbrella insurance coverage, provided the aggregate coverage meets the required minimum limits; and
- for excess/umbrella insurance, when the coverage limit meets the requirement for the location with the most stories.

You should ensure that any combination of primary liability policy does not contain exclusions for normal coverage that are normal and customary in the standard liability insurance form, such as

- assault and battery,
- animal attacks, and
- firearms, etc.

The maximum deductible amount, per occurrence, is the combined deductible for both the

- underlying general or professional liability, and
- excess/umbrella liability.

For example, if the Borrower's total insurable value is \$45 million, then the maximum deductible is \$100,000 combined for the underlying liability and excess/umbrella insurance coverage liability in any combination (e.g., so long as they add up to \$75,000 deductible/self-



insured retention on the sum of general liability and \$25,000 on the required minimum limits.

You may satisfy the insurance coverage requirements for excess/umbrella insurance when the coverage limit meets the requirement for the location with the most stories (liability).

501.04B Professional Liability Insurance

☑ Requirements

If a Seniors Housing Property provides any level of healthcare is provided at a Seniors Housing Property, it you must have professional liability insurance covering professional errors and omissions, medical malpractice, and all types of abuse.

The coverage amount must be at least ensure the:

- \$1 million per occurrence/\$2 million general aggregate limit, plus
- excess/umbrella insurance as follows:
- Property has professional liability insurance covering
 - professional errors and omissions,
 - medical malpractice, and
 - all types of abuse; and
- coverage is at least
 - \$1 million per occurrence/\$2 million general aggregate limit, plus
 - excess/umbrella insurance as follows:

If the number of licensed beds is...	The minimum excess/umbrella insurance coverage is...
1 – 100	\$2 million
101 – 500	\$5 million
501 – 1,000	\$10 million
Over 1,000	\$2520 million

For a Property with Assisted Living beds, Independent Living beds are



not counted when determining the minimum coverage limit.

When general liability insurance and professional liability insurance coverages are combined under an excess/umbrella insurance policy, the required coverage is the higher minimum limit of the 2 underlying coverages.

The maximum deductible for professional liability insurance You must not exceed the applicable maximum amount in [Part II, Chapter 5: Property and Liability Insurance, Section 501.04A: Commercial General Liability Insurance](#). ensure:

- [for a Property with Assisted Living beds, Independent Living beds](#) are not counted when determining the minimum coverage limit;
- [when general liability insurance and professional liability insurance coverages are combined under an excess/umbrella insurance policy, the coverage meets the higher minimum limit of the 2 underlying coverages; and](#)
- [the maximum deductible for professional liability insurance does not exceed the applicable maximum amount per Part II, Chapter 5: Property and Liability Insurance, Section 501.04A: Commercial General Liability Insurance.](#)

[Guidance](#)

When using a claims-made policy, you should consider whether an adequate “retroactive date” is in place. A retroactive date provides coverage for acts that took place before a specified date — usually before the effective date of the current policy. A retroactive date of 3–5 years before the current policy’s effective date is common.

If the [Borrower](#) changes carriers during the term of the [Mortgage Loan](#), the addition of tail coverage or an extended reporting period endorsement, which extends coverage after the cancellation or termination of a claims-made policy, is important. These provisions help ensure that there is no lapse in coverage.

You may satisfy the insurance coverage requirements with any combination of primary liability insurance and excess/umbrella insurance coverage, as long as they add up to the sum of the required minimum limits.

You may satisfy the insurance coverage requirements for



excess/umbrella insurance when the limit meets the requirement for the covered location with the most beds.

➔ Guidance

When using a claims-made policy, you should consider if an adequate “retroactive date” is in place providing coverage for acts that occurred before a specified date – usually before the effective date of the current policy. A retroactive date of 3 - 5 years before the current policy’s effective date is common.

If the Borrower changes carriers during the Mortgage Loan term, the addition of tail coverage or an extended reporting period endorsement, extending coverage after the cancellation or termination of a claims-made policy, is important to ensure no lapse in coverage occurs.

You may satisfy the coverage requirements:

- with any combination of primary liability insurance and excess/umbrella insurance coverage, provided the aggregate coverage meets the required minimum limits; and
- for excess/umbrella insurance when the coverage limit meets the requirement for the location with the most beds.

501.04C Risk Retention Groups and Captive Insurance

☑ Requirements

Only a Seniors Housing Property may use liability insurance from a Risk Retention Group or a Captive Insurer. Captive Insurance is only acceptable for

- professional liability insurance, and
- general liability insurance when combined with professional liability insurance.

Any Risk Retention Group or Captive Insurer must have a rating of at least

- A - / VI from A.M. Best Company, or
- A from Demotech, Inc., with policyholder surplus of at least \$40



million.

You must get an annual report on the **Captive Insurer** from an independent firm that is:

- familiar with captive domiciles, operations, and insurance structures;
- experienced analyzing captive actuarial studies and audited financial statements; and
- unrelated to the **Captive Insurer**, you, the **Borrower**, **Guarantor**, or any of its sponsors or **Principals**.

The firm's report must include:

- an analysis of the **Captive Insurer's** annual independent actuarial study;
- an actuarial memorandum/reserve analysis provided by the **Captive Insurer**;
- a review of the annual independent audited financial statements for the **Captive Insurer**; and
- a conclusion regarding the **Captive Insurer's** operations and financial viability.

Guidance

Captive Insurance and similar arrangements have lower capitalization requirements than traditional insurance companies, and are usually not rated by a recognized rating agency.

In order to be rated, a **Captive Insurer** will typically provide the following to a rating provider:

- detailed updated accrual runs;
- updated loss history (minimum 5 years, brief summary, and detailed list);
- current updated audited financial statements for the past 2 years:
 - for the captive, audited financials typically are on a stand-alone basis (if audited are not available, then unaudited financials are acceptable); and



- for the parent company's, the financials should be on a consolidated basis;
- financials, audited or unaudited, from the captive and parent company for the most recent quarter;
- description of any changes from previous years with applicable updated resumes of all officers;
- description of any reinsurance and/or fronting company, if applicable;
- description of internal claims management procedures;
- status of market update;
- description of funding sources;
- business plan;
- projected volume over the next year;
- actuarial memorandum/reserve analysis as provided by the Captive Insurer;
- state insurance examination report or, if a report is not available,
 - date of examination,
 - description of any adverse findings, and
 - steps taken to remediate; and
- exposure to the Captive Insurer or Risk Retention Group, based on the UPB of loans made to date.

501.04D Workers' Compensation Insurance

501.04C

Requirements

The **PropertyYou** must have workers' compensation and employer's liability insurance (including terrorism coverage), if required in **ensure** the state where the **Property** is located.

The coverage amount must equal or exceed:

- the statutory limits for injured employees; plus
- the greater of
 - employer's liability limits of \$1 million per occurrence for bodily



injury, \$1 million per occurrence and \$1 million aggregate for employee disease, or

- any underlying limit required by the excess/umbrella insurance carrier.
- Property has workers' compensation and employer's liability insurance (including terrorism coverage), if required in the Property's state; and
- coverage equals or exceeds the:
 - statutory limits for injured employees; plus
 - greatest of:
 - employer's liability limits of \$1 million per occurrence for bodily injury;
 - \$1 million per occurrence and \$1 million aggregate for employee disease; or
 - any underlying limit required by the excess/umbrella insurance carrier.

501.04E Directors' and Officers' Liability Insurance

501.04D

Requirements

~~Each~~You must ensure each Property owned by a Cooperative Organization ~~must have directors' and officers' liability insurance.~~has:

~~The coverage amount must be at least \$1 million per occurrence.~~

- directors' and officers' liability insurance; and
- coverage equal to at least \$1 million per occurrence.

501.04F Commercial Auto Liability Insurance

501.04E

Requirements

~~The~~You must ensure the Borrower ~~must have~~has commercial auto liability insurance ~~for any motor vehicles that are~~



- owned or hired by the Borrower, or
- used by anyone for business on behalf of the Borrower or the Property.

The coverage must include personal injury protection required by the state where the Property is located.

The coverage amount must be the greater of:

- \$1 million per occurrence, or
- any underlying limit required by the excess/umbrella insurance carrier.
- covers any motor vehicles that are:
 - owned, leased, or hired by the Borrower; or
 - used by anyone for business on behalf of the Borrower or the Property;
- includes personal injury protection required by the Property's state; and
- has coverage equaling the greater of
 - \$1 million per occurrence, or
 - any underlying limit required by the excess/umbrella insurance carrier.

➔ Guidance

As a secured real estate lender, you would not be named in a lawsuit alleging automobile negligence by an employee of the Borrower or management company. However, if a lawsuit involving negligence is successful, failure to maintain adequate insurance may result in a lien against the Property.

501.05 Small Loans

☑ Requirements

All insurance requirements of this Chapter apply to Small Mortgage Loans, except as noted in this Section.



501.05A Permanent Evidence

➔ Guidance

If you are unable to obtain the original or a duplicate copy of the insurance policy or the [MBA Evidence of Insurance](#), the [Borrower's](#) insurance agent or broker may deliver a written statement that it has reviewed the policy and confirmed that it meets the following requirements:

- [Named insured is listed as Fannie Mae and the Borrower.](#)
- [Mortgagee Clause meets Fannie Mae's requirements.](#)
- [Each insurance carrier has a compliant A.M. Best Company or Demotech, Inc. rating.](#)
- [Policy term is 12 months.](#)
- [Cancellation Clause meets Fannie Mae's requirements.](#)
- [Special Coverage Form applies.](#)
- [No Coinsurance or, if there is Coinsurance, an Agreed Value Endorsement is attached to the policy.](#)
- [Limits of insurance are included for all required coverages, including any sub-limits or other restrictions \(such as catastrophic limits\) that may differ from the standard coverage amount.](#)
- [A Statement of Values is included where applicable.](#)
- [Coverage is subject to \[Replacement Cost\]\(#\) valuation.](#)

501.05B Excess/Umbrella Insurance

☑ Requirements

The minimum excess/umbrella insurance is \$1 million if

- [no building on the \[Property\]\(#\) has more than 4 stories, and](#)
- [the \[Mortgage Loan\]\(#\) has a \[UPB\]\(#\) of \\$3 million or less.](#)

501.05C Terrorism Insurance

➔ Guidance

[Terrorism insurance is not required for \[Small Mortgage Loans\]\(#\).](#)



Section 502

Environmental Matters

➔ Guidance

Any environmental conditions or risks impacting the Property should be fully understood and considered in the underwriting.

502.01 Environmental Site Assessments

☑ Requirements

You must comply with the Environmental Due Diligence Requirements (Form 4251), which include obtaining a Phase I Environmental Site Assessment (Phase I ESA) of the entire Property. The Phase I ESA must:

- be performed per the instructions in Form 4251, including meeting the current requirements of ASTM E1527;
- be prepared by an environmental professional as that term is defined in 40 C.F.R. § 312.10 (an Environmental Professional);
- comply with the Environmental Due Diligence Requirements (Form 4251), including obtaining a Phase I Environmental Site Assessment (Phase I ESA) of the entire Property;
- ensure the Phase I ESA:
 - is performed per the instructions in Form 4251, including meeting the current requirements of ASTM E1527;
 - is prepared by an environmental professional as that term is defined in 40 C.F.R. § 312.10 (an Environmental Professional);
 - identifies all environmental conditions and risks that may potentially impact
 - resident safety,
 - marketability, or
 - Property value; and
 - clearly identifies how to properly mitigate those conditions and risks, including where applicable;
 - the Environmental Professional's recommendations regarding additional investigation, or requirements of government authority or regulatory agency; or



- action to remediate or abate any Recognized Environmental Condition (REC)/Controlled Recognized Environmental Condition (CREC), as those terms are defined in ASTM E1527; and
1. obtain Fannie Mae's approval before Rate Lock if the Phase I ESA identified any RECs/CRECs.
 - identify all environmental conditions and risks that may potentially impact resident safety, marketability, or value of the Property; and
 - clearly identify how to properly mitigate those conditions and risks, including where applicable,
 - the Environmental Professional's recommendations regarding additional investigation, or requirements of government authority or regulatory agency, or
 - action to remediate or abate any Recognized Environmental Condition (REC)/Controlled Recognized Environmental Condition (CREC), as those terms are defined in ASTM E1527.

If the Phase I ESA identified any RECs/CRECs, you must obtain Fannie Mae's approval before Rate Lock.

Guidance

You may rely on a preliminary or draft Phase I ESA to obtain a CommitmentRate Lock and Commitment.

502.02 Lender's Responsibilities

Requirements

You must:

- Obtain all investigations recommended or indicated by the Phase I ESA.
- Conduct a thorough review and analysis of the Phase I ESA.
- Provide the Environmental Professional with all available prior Phase I ESAs, investigations, and any relevant and readily available environmental materials.
- Provide the Appraiser with any documentation from the Phase I ESA that is necessary to accurately assess the Property's market value.



- Identify whether the state where the **Property** is located has an environmental “super lien” statute and, if so, confirm that conditions on the **Property** are not likely to result in the imposition of such a **Lien**.
- Identify if the **Property's** state has an environmental Super Lien Statute and, if so, confirm **Property** conditions are unlikely to result in the imposition of a super lien having priority over the **Security Instrument**.
- Disclose to Fannie Mae your knowledge of any actual or suspected environmental conditions affecting the **Property**, whether or not disclosed in the **Phase I ESA**.
- Ensure that any required Operations and Maintenance Plans (O&M Plans) are obtained and located on the site throughout the **loan Mortgage Loan** term.
- Assess the **Borrower's** ability to carry out any **O&M Plan**.
- ~~Assess the Not Borrower's Deliver ability to carry out any a O&M Plan Mortgage Loan. A Mortgage Loan is ineligible for purchase if the Borrower or its agents are not financially or organizationally capable of satisfying the requirements of the O&M Plan.~~
- Evaluate the potential risk of loss and liability to the **Property**, the **Borrower**, you, or Fannie Mae posed by any
 - REC/CREC,
 - **Business Environmental Risk**, or
 - other environmental condition, whether or not disclosed in the **Phase I ESA**.

If you become aware of any REC/CREC, you must:

- Obtain a Remediation Plan from the **Borrower** that
 - is prepared by an Environmental Professional, as required by **Form 4251**,
 - will protect the health and safety of the residents and bring the **Property** into regulatory compliance, and
 - includes a cost estimate and schedule for completing the work.
- Add the estimated cost of the Remediation Plan to the **Completion/Repair Escrow** requirement of the **Loan Documents**.



→ Guidance

The amount funded into the [Completion/Repair Escrow](#) on the [Mortgage Loan Origination Date](#) should be at least 125% of the estimated cost of the [Remediation Plan](#).

502.03 Environmental Indemnity Agreement

☑ Requirements

You must consider revisions to the [Environmental Indemnity Agreement \(Form 6085\)](#) to protect you and Fannie Mae from liability associated with any [REC/CREC](#) (including the cost to investigate/remediate any such condition) and any violation of [Environmental Laws](#) by the [Borrower](#). You must document your evaluation of potential revisions, including at a minimum, whether the following revisions are appropriate:

- [additional representation and warranty where the Borrower disclaims responsibility for any REC/CREC, if appropriate and accurate;](#)
- [additional covenant\(s\) requiring](#)
 - [implementation of the Remediation Plan;](#)
 - [compliance with any Environmental Activity and Use Limitations and/or institutional or engineering controls, and](#)
 - [maintenance of Borrower eligibility for applicable liability protection status;](#)
- [consider revisions to the Environmental Indemnity Agreement \(Form 6085\) to protect you and Fannie Mae from liability associated with any](#)
 - [REC/CREC \(including the cost to investigate/remediate any such condition\), and](#)
 - [violation of Environmental Laws by the Borrower;](#)
- [document your evaluation of potential revisions, including at a minimum, whether the following revisions are appropriate:](#)
 - [additional representation and warranty where the Borrower disclaims responsibility for any REC/CREC, if appropriate and accurate; and](#)
 - [additional covenant\(s\) requiring](#)
 - [implementation of the Remediation Plan.](#)



- compliance with any Environmental Activity and Use Limitations and/or institutional or engineering controls, and
 - maintenance of Borrower eligibility for applicable liability protection status;
- specifically identifying any liability associated with the REC/CREC in the indemnification provisions; and
 - other required terms and conditions as may be required based on Fannie Mae environmental counsel review.

Section 503 Seismic Risk

503.01 Seismic Hazard and Risk Factors

Guidance

Any seismic risk impacting the Property should be understood before the Commitment Date. Seismic risk is assessed by analyzing the PGA at the location of the Property.

After purchase of the Mortgage Loan, no additional seismic risk evaluation is required.

Requirements

Each Property You must have an acceptable level of seismic risk.

A Mortgage Loan is ineligible for purchase if the Property has:

- a PGA equal to or greater than 0.15g, and
- 1 of these Structural Risk Factors:
 - an unreinforced masonry building that has not been seismically retrofitted; or
 - a building constructed on a slope with an angle exceeding 30 degrees (a 50% slope).
- assess the seismic risk before Rate Lock by analyzing the PGA at the Property's location;
- determine if the Property has an acceptable level of seismic risk;



- complete Form 4099.C if the Property is located in a High Seismic Risk area;
- obtain a Seismic Risk Assessment (SRA) if a Structural Risk Factor is identified per Form 4099.C; and
- not Deliver a Mortgage Loan if the Property has
 - a PGA equal to or greater than 0.15g, and
 - 1 of these Structural Risk Factors:
 - an unreinforced masonry building that has not been seismically retrofitted; or
 - a building constructed on a slope with an angle exceeding 30 degrees (a 50% slope).

If the Property is located in a High Seismic Risk area, you must complete Form 4099.C. If a Structural Risk Factor is present, you must also obtain a Seismic Risk Assessment (SRA).

➔ Guidance

After you Deliver the Mortgage Loan, no additional seismic risk evaluation is needed.

503.02 Seismic Risk Assessment (SRA)

☑ Requirements

You must obtain a Level 1 SRA dated within 12 months before the Commitment Date for any Property with one of the Structural Risk Factors listed in Form 4099.C.

The SRA must:

- meet the ASTM seismic standards (ASTM E2026— Standard Guide for Seismic Risk Assessment of Buildings and ASTM E2557— Standard Practice for Probable Maximum Loss (PML) Evaluations for Earthquake Due Diligence Assessments);
- include estimates for the Scenario Expected Loss (SEL) and the Scenario Upper Loss (SUL);
- use a 10% probability of exceedance in a 50-year period;



- meet ASTM seismic standard professional qualifications;
- include structured data per Seismic Risk Assessment Data Supplement (Form 4093); and
- include a report narrative.
- obtain a Level 1 SRA dated within 12 months before the Commitment Date for any Property with one of the Structural Risk Factors listed in Form 4099.C; and
- ensure the SRA:
 - meets the ASTM seismic standards (ASTM E2026 – Standard Guide for Seismic Risk Assessment of Buildings and ASTM E2557 – Standard Practice for Probable Maximum Loss (PML) Evaluations for Earthquake Due Diligence Assessments);
 - includes estimates for the Scenario Expected Loss (SEL) and the Scenario Upper Loss (SUL);
 - uses a 10% probability of exceedance in a 50-year period;
 - meets ASTM seismic standard professional qualifications; and
 - complies with Form 4099.C, including
 - structured data per Seismic Risk Assessment Data Supplement (Form 4093), and
 - a report narrative.

➔ Guidance

For Small Mortgage Loans, the SRA field investigation may be performed by a PCA Small Mortgage Loan consultant or field observer if that professional has at least 2 years of experience performing seismic risk assessments of buildings.:

A new SRA is not required for Supplemental Mortgage Loans; you may rely on the original underwriting seismic analysis.

- the SRA field investigation may be performed by a PCA consultant or field observer if that professional has at least 2 years of experience performing seismic risk assessments; and
- a new SRA is not required for Supplemental Mortgage Loans; you may rely on the original underwriting seismic analysis.



503.03 Acceptable Levels of Seismic Risk

➔ Guidance

The Property's SEL percentage of the Property and the building stability assessment ~~will determine whether~~ determines if the seismic risk is acceptable.

☑ Requirements

The Property's seismic risk is acceptable if all income-producing Improvements or any non-income-producing Improvements that support amenities You must:

- comply with this Section 503.03,
- have an SEL of 20% or less, and
- meet the current building stability requirements of ASTM E2026.
- determine if the Property's seismic risk is acceptable by confirming all income-producing Improvements or any non-income producing Improvements that support amenities:
 - comply with Part II, Chapter 5: Property and Liability Insurance, Section 503.03: Acceptable Levels of Seismic Risk;
 - have an SEL of 20% or less; and
 - meet the current building stability requirements of ASTM E2026; and
- not Deliver a Mortgage Loan secured by a Property having any Improvements with an SEL greater than 40%.

~~A Mortgage Loan is ineligible for purchase if it is secured by a Property that has any Improvements with an SEL greater than 40%.~~

➔ Guidance

Your analysis should include:

- a Level 1 SRA, including Appendix X4 (ASTM E2557);
- your analysis of the seismic issues and recommendation, describing in detail the:
 - the severity and pervasiveness of the conditions driving the SEL



and stability issues;

- the risks presented to building stability, building damageability, site stability, and life safety, and
- risks presented to
 - building stability,
 - building damageability,
 - site stability, and
 - life safety; and
- the recommended retrofit or remediation requirements;
- a retrofit letter or the Borrower's retrofit plan, timetable, and cost estimate; including the
 - timetable, and
 - cost estimate;
- Form 4099.C; and
- a minimum of 6 Property photos, including
 - photos of these areas significant to the seismic calculation or stability issue, and
 - elevation views of any Improvements having an SEL over 20% of a stability issue.
 - an SEL over 20%, or
 - a stability issue.

503.04 Seismic Retrofit Ordinances

Requirements

If you must ensure the SRA describes a proposed retrofit plan, including associated costs, if a Property is required to must be retrofitted under any law, regulation, or ordinance,

- the SRA must describe a proposed retrofit plan, including associated costs, and
- the retrofit must be completed before the Commitment Date.



- [law](#),
- [regulation, or](#)
- [ordinance.](#)

503.05 Seismic Risk Mitigants

➔ [Guidance](#)

[For any Property where any Improvements have an SEL greater than 20% or a building stability issue, you should consider the following to mitigate seismic risk:](#)

- [perform a seismic retrofit sufficient to resolve all stability issues and reduce the SEL of all Improvements to 20% or below; and](#)
- [obtain earthquake insurance coverage per Part II, Chapter 5: Property and Liability Insurance, Section 501.03D: Earthquake Insurance.](#)

[Earthquake insurance does not mitigate building collapse risk.](#)

☑ [Requirements](#)

[For any Property where any Improvements have an SEL greater than 20% or a building stability issue, you must contact Multifamily Insurance to determine acceptable mitigants for Mortgage Loan Delivery, including:](#)

- [performing a seismic retrofit sufficient to resolve all stability issues and reduce the SEL of all Improvements to 20% or below; and](#)
- [obtaining earthquake insurance coverage per Part II, Chapter 5: Property and Liability Insurance, Section 501.03D: Earthquake Insurance.](#)

[Earthquake insurance does not mitigate seismic risk.](#)



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 202: Appraisal and Valuation](#);
 - [Servicer's](#) underwriting spreadsheet showing the [Subordinate Loan's](#) effect on the [Property's](#) income, expenses, [NCF](#), [DSCR](#), and [LTV](#);
 - a copy of the final, unsigned loan documents evidencing the [Subordinate Loan](#), with the loan amount, interest rate, payment schedules, and all other



transaction related information completed;

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

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

407.05 Fannie Mae Approval and Execution

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

407.06 Subsequent Servicer Actions

The **Servicer** must:

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



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

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

Section 408 Administration of Collateral Agreements

408.01 General Administrative Requirements

408.01A Administration of Funds

The [Servicer](#) must:

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

408.01B Funds to be Held in a Custodial Account

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

408.01C Use of Funds

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



408.01D Funds as Additional Security for Mortgage Loan

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

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

408.01E Servicer's Fees and Costs

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

408.01F Waiver or Modification of Terms of Collateral Agreement

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

408.02 Achievement Agreement or Other Agreement for Additional Collateral

408.02A General

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

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



Completion/Repair Schedule and Replacement Reserve Schedule;

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

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

408.02B Releases or Reductions in Collateral

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

1. General

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

2. Supporting Documentation and Analysis

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

(a) Income and Expense Statements; Current Rent Roll

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



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

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

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

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

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



Borrower's statement.

(b) Servicer's Analysis

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

(c) Correspondence

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

3. Property Inspection

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

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

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

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

1. Draws Triggered by Adverse Events

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

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



Agreement or other Collateral Agreement; or

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

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

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

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

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

3. Draws Occasioned by Borrower Request

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



Servicer must deny the Borrower request.

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

4. No Interest on Proceeds Held by Fannie Mae

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

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

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

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

The Servicer is delegated the authority to:

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

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

408.03 Completion/Repairs



408.03A General

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

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

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

408.03B Extensions for Completion/Repairs

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

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

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

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



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

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

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

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

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

408.03C Completion/Repair Loan Document Amendments

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

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

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



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

The Servicer must:

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

408.03D Servicer's Administrative Requirements

For all Completion/Repairs, the Servicer must:

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



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

408.03E Processing Borrower Requisitions

1. General

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

2. Required Documentation for Disbursement

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

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

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

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



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

3. Disbursement of Funds (Excluding Final Disbursement)

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

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



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

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

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

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



the required completion dates; and

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

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

4. Final Disbursement of Funds

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

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

5. Maintenance of Servicing File

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

408.03F Inspections

1. Use of Third Party

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



the third-party's performance.

2. When Periodic Inspections Are Required

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

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

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

3. When a Final Inspection Is Required

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

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

4. Confirming Completion/Repairs if Inspection Is Not Required

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

5. Documenting the Servicing File

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

408.03G Fees

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



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

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

408.03H Completion/Repair Defaults

1. Notification of Default to Fannie Mae

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

2. No Release of Funds to Borrower

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

408.03I Green Rewards Efficiency Measure Verification

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

1. Green Rewards Verification Inspection

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

2. Minimum Inspector Qualifications

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



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

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

3. Unit Inspection

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



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

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

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

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

4. Determining Compliance

An Efficiency Measure is compliant when the inspector:

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



- documents it on Form 4221.

5. Remediating Noncompliance

When an Efficiency Measure is noncompliant:

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

6. Verification Inspection Form Review

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

408.04 Replacement Reserve

408.04A General

The Loan Documents for administering Replacement Reserves are:

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

The Replacement Reserve funds must be held by the Servicer



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

408.04B Replacement Reserve Loan Document Amendments

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

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

408.04C Servicer's Administrative Requirements

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

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



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

408.04D Modifications to Replacement Reserve Deposits

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

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

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

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

408.04E New Property Condition Assessments

1. Timing and Waivers



A new full PCA per Form 4099 is required for:

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

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

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

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



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

2. Delivery and Payment of Property Condition Assessment

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

408.04F When Replacement Reserve Funding Was Partially or Fully Waived

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

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

408.04G Interest on Replacement Reserve Funds

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

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

408.04H Items Eligible for Funding from the Replacement Reserve

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

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



Reserve Schedule, such as those that would:

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

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

408.04I Items Not Eligible for Funding from the Replacement Reserve

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

408.04J Processing Borrower Requisitions

1. General

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

2. Required Documentation

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

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



- the quantity and price of each type of capital item replaced (e.g., refrigerators);
- the quantity and price of all materials or parts (grouped by type or category) purchased; and
- the cost of all contracted labor or other services.

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

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

3. Disbursement of Funds

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

- all capital item replacements or major maintenance items covered by the requisition have been completed in a good and workmanlike manner;
- all related invoices for capital items and services have been paid, unless the **Borrower** has satisfied any applicable conditions of the **Loan Documents** for issuance of a joint check, made payable to the **Borrower** and the **Person** owed funds;
- no mechanics' **Liens**, materialmen's **Liens**, or other



Liens are outstanding that have not been acceptably bonded over; and

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

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

4. Maintenance of Servicing File

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

408.04K Inspections

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

408.04L Fees

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

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

Subject to the Loan Documents, the Servicer may charge the Borrower a reasonable fee for any special inspection services provided in connection with a Replacement Reserve requisition; however, no fee



may be charged if such inspection is made as part of a regularly scheduled [Property](#) inspection.

[Replacement Reserve](#) funds, including any interest, may not be used to cover fees due to the [Servicer](#) unless:

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

408.04M Replacement Reserve Defaults

1. Notification of Default to Fannie Mae

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

2. No Release of Funds to Borrower

No funds may be released to the [Borrower](#) while the [Mortgage Loan](#) is in default.

408.04N Return of Replacement Reserve Funds to Borrower

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

408.04O Alternative Funding of Replacement Reserves for Portfolio Mortgage Loans

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

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



Section 409 Interest Rate Hedge Requirements

409.01 General

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

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

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

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

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

409.02 Interest Rate Hedge Coverage

409.02A Bond Credit Enhancement Transactions

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

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

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** credit



Enhancement Transaction;

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

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

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

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

409.03 Interest Rate Hedge Term

The **Servicer** must:

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

409.04 Lien Filings and Collateral

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



409.05 Borrower Payments

409.05A Interest Rate Caps

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

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

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

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

409.05B Interest Rate Swaps

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

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

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



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

409.06 Provider Ratings

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

409.07 Replacement Interest Rate Hedge and Notification

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.



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.

413.01A Generally

The Servicer must ensure:

- the Property is continuously covered by property and liability insurance per Part II, Chapter 5: Property and Liability Insurance;
- all renewal premiums are fully paid on time in:
 - an annual lump sum; or
 - installments; and
- any Borrower-financing of premiums complies with Part II, Chapter 5: Property and Liability Insurance, Section 501.01E: Payment of Premium, and either:
 - the Modifications to Multifamily Loan and Security Agreement (Financing of Insurance Premiums) (Form 6272) was executed on the Mortgage Loan Origination Date; or
 - prior to the Borrower entering into a premium financing agreement, execute and submit through the MAMP an Amendment to the Multifamily Loan and Security Agreement, substantially in the form of the Modifications to Multifamily Loan Agreement (Financing of Insurance Premiums) (Form 6272).

If no insurance escrows are collected, the Servicer must:

- obtain annual evidence that all policies were fully paid; and



- for Borrower-financed premiums, retain in the Servicing File:
 - receipts confirming timely payments; and
 - a copy of the financing agreement.

413.01B Policy Renewal

For each policy renewal, the Servicer must comply with the following timeline.

<u>Timeline</u>	<u>The Servicer must...</u>
<u>No later than 60 days before the policy expiration date</u>	<u>Contact the Borrower to request an original or duplicate original of each renewal policy within 90 days after the policy's expiration date.</u>
<u>No later than 15 days after the earlier of:</u> <ul style="list-style-type: none"> - <u>receipt of each renewal policy; or</u> - <u>the date the policy was due</u> 	<ul style="list-style-type: none"> - <u>Determine if the insurance coverage complies with Part II, Chapter 5: Property and Liability Insurance.</u> - <u>If non-compliant, immediately notify:</u> <ul style="list-style-type: none"> ▪ <u>the Borrower to resolve all non-compliant items; and</u> ▪ <u>Fannie Mae per a Non-Monetary Default Borrower Request in the MAMP.</u>
<u>No later than 60 days after notifying the Borrower of any noncompliant renewal policy</u>	<u>Resolve all non-compliant items with the Borrower and/or insurance agent (e.g., obtain a compliant renewal policy or endorsement, request a waiver, obtain force place coverage, etc.).</u>
<u>If, after 60 days, neither a compliant renewal policy nor an insurance waiver is obtained</u>	<ul style="list-style-type: none"> - <u>Submit a Non-Monetary Default Borrower Request in the MAMP.</u> - <u>Immediately send the Borrower a Reservation of Rights Letter (Form 4804).</u>

413.01C Compliance Review

With each renewal, but at least annually, the Servicer must:



- complete an insurance compliance checklist to review the adequacy of the Borrower's insurance coverage and ensure compliance with:
 - Part II, Chapter 5: Property and Liability Insurance;
 - all Fannie Mae-approved modifications; and
 - the Loan Documents;
- confirm the insurance carrier's rating per Part V, Chapter 4: Loan Document Administration, Section 413.01E: Ratings; and
- retain in the Servicing File the:
 - checklist;
 - evidence of the insurance carrier's rating; and
 - if terrorism insurance is required, the analysis when annually confirming insurance compliance.

For an unrated Risk Retention Group or Captive Insurer, the Servicer must also comply with Part II, Chapter 5: Property and Liability Insurance, Section 501.01C: Risk Retention Groups and Captive Insurance.

413.01D Exceptions

The Servicer must submit any insurance exception, including a delegated one, through the MAMP, with:

- a Multifamily Exception Request (Form 4638) for each exception signed by the authorizing person;
- a recommendation explaining why any non-delegated waiver request should be approved;
- all supporting documentation; and
- any previous exception not approved for the life of the Mortgage Loan, on an annual basis.

413.01E Ratings

All property and liability insurance carriers for renewal policies must comply with the following.



<u>If rated by...</u>	<u>Insurance carrier must have a...</u>
<u>A.M. Best Company</u>	- <u>General Policyholder Rating of A- or better;</u> <u>and</u> - <u>Financial Size Category of VI or better.</u>
<u>Demotech, Inc.</u>	<u>Financial Stability Rating of A or better.</u>

This rating requirement does not apply to:

- state pools or funds; or
- NFIP policies.

Per the Loan Documents, even if the policy has not yet expired, the Servicer must require the Borrower to immediately obtain replacement coverage with a compliant carrier if the carrier is downgraded below:

- B++, if rated by A.M. Best Company; or
- A, if rated by Demotech, Inc.

413.02 No Servicer Financing for Property and Liability Insurance Premiums

The Servicer must not provide financing to the Borrower, or otherwise permit for the Borrower to obtain financing, in order to payment of 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:



- be in place within 45 days after the date the Servicer was notified of the remapping; and
- have coverage meeting the mandatory purchase requirements identified in:
 - the Federal flood insurance statutes; and
 - any applicable Federal agency rulemaking and publication.

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 remapped into 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.

To remove a Property/building from an SFHA, only an updated FEMA Standard Flood Hazard Determination Form (SFHDF) based on the following is acceptable:

- Letter of Map Amendment (LoMA);
- Letter of Map Revision (LoMR); or
- Letter of Determination Review (LoDR).

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.:

- obtain the required property and liability insurance, at the Borrower's expense, if:
 - the Borrower fails to obtain acceptable insurance coverage; or
 - per the Loan Documents, even if the policy has not yet



expired, the carrier is downgraded below the required ratings per Part V, Chapter 4: [Loan Document Administration](#), Section 413.01E: Ratings; and

- [notify Fannie Mae if the Servicer obtains the required property and liability insurance.](#)

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

413.04B

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

Section 414 Casualty Losses – Performing Mortgage Loans

414.01 Notice

In the event of a casualty loss of \$75,000 or more, the [Servicer](#) must submit through the [MAMP](#) a:

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

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

414.02 Filing Proof of Loss

For any casualty loss covered by the [Borrower's](#) insurance policy, the [Servicer](#) must ensure that the [Borrower](#) timely files a proof of loss with the insurance carrier, and effects a prompt and reasonable



adjustment of the loss. If the **Borrower** fails to timely file a proof of loss with the insurance carrier, or take requisite actions to effect a prompt adjustment of the loss claim, the **Servicer** must independently contact the insurance carrier to adjust the loss claim.

414.03 Casualty Loss Assessment

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

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

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



bearing on Fannie Mae's interests.

414.04 Required Casualty Loss Property Inspection

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

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

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

An inspection by the **Servicer** is optional if the casualty loss is expected to be less than (i) \$500,000, or (ii) 20% of the **UPB**, and none of the above conditions exist. If the **Servicer** elects not to inspect the **Property**, the **Servicer** must confirm during the next **Property** inspection, and document in its **Servicing File**, that the repair and restoration work was satisfactorily completed. If the **Servicer** determines that the repair or restoration work was not satisfactorily completed, the **Servicer** must



notify Multifamily Inspections and Multifamily Loss Mitigation) in writing, as required by Part V, Chapter 5: Surveillance.

414.05 Documentation for Required Casualty Loss Property Inspections

After inspecting the Property, the Servicer must:

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

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

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

Fannie Mae

By: [Name of Servicer]

By: [Name of Servicer's Authorized Signer]

[Title of Servicer's Authorized Signer].

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

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

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



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

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

414.09 Application of Insurance Loss Proceeds

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

414.09A Fannie Mae Determination Required

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

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



date of the casualty loss.

414.09B Disposition of Insurance Loss Proceeds

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

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

414.10 Property Restoration Requirements

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

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



Mortgage Loans with Loan Documents documented after the June 2019 Loan Document publication); and

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

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

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

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

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

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

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

- Multifamily Catastrophic Loss Inspection (Form 4261); and



- Report of Multifamily Hazard Insurance Loss (Form 178).

414.11 Commencement of Repair/Restoration Work

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

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

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

414.12 Disbursements

414.12A Prerequisites for Disbursement of Funds

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



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

414.12B Disbursing Funds

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

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

414.12C Content of Disbursement Request

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



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

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

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

414.12D Disbursement Amount

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

- (i) an amount equal to:
 - the actual cost of the repair and restoration work covered by the disbursement request, or, if the work was done under a contract or subcontract pursuant to which other work remains to be done, an amount equal to 90% of the actual cost of the



repair and restoration work covered by the disbursement request (i.e., a 10% holdback is required if the work under the applicable contract or subcontract has not been completed in full); plus

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

(ii) an amount equal to the difference between:

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

414.12E Final Disbursement; Notice to Fannie Mae

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

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

414.12F Documentation in Servicing File

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

414.13 Borrower's Failure to Diligently Pursue Repair

The **Servicer** must notify **Multifamily Asset Management**



immediately if the **Borrower** fails to:

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

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

414.14 Reimbursement of Administrative Costs

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

Section 415 Casualty Losses – Non-Performing Mortgage Loans

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

Section 416 Credit Facilities and Bulk Deliveries

416.01 General

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



Documents for specific requirements.

416.02 Delegation of Decisions

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

416.02A Decisions and Actions Not Delegated

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

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

416.02B Decisions Delegated by the Delegated Transaction Form 4636 series

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



416.02C Other Delegated Decisions

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

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

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

416.03 Approval Requests

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

416.04 Release and Substitution Requests

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

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

- the **Servicer's** summary of the **Borrower's** release/substitution request, and its recommendation regarding approval of the requested release/substitution;



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

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

If the request is approved, the [Servicer](#) must:

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



416.05 Borrow-Up (Future Advance) Requests

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

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

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

416.06 Facility Revaluations



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

416.07 Supplemental Mortgage Loans Not Permitted

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

416.08 Additional Information

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

Section 417 Seniors Housing Properties

417.01 General

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

417.02 Decisions and Actions Delegated and Not Delegated

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

- [Seniors Housing](#) expansions/conversions, including



constructing additional units, substantial alterations, Seniors Housing Major Renovations, and Seniors Housing Minor Renovations;

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

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

417.03 Approval Requests

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

417.04 Seniors Housing Expansion/Conversion Requests

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

417.04A Permitted Purpose



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

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

417.04B Submission Requirements

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

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

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

417.04C Requirements and Monitoring

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



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

417.04D Construction Completion Requirements

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



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

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

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

Section 418 Credit Enhancement Mortgage Loans and Multifamily Affordable Housing Properties

418.01 Bond Transactions and Credit Enhancement Mortgage Loans

For any [Credit Enhancement Mortgage Loan](#) where Fannie



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

418.02 Compliance Issues Relative to Bond Credit Enhancement Transactions

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

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

418.03 Monitoring Compliance; Notification of Noncompliance

418.03A Affordable Regulatory Agreement

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

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

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

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

The Servicer must promptly notify Multifamily Asset Management, the Borrower, the Bond Trustee, and the Issuer in writing



of any default by a [Borrower](#) with any provision of any [Loan Document](#), [Reimbursement Agreement](#), [Security Agreement](#), the [Affordable Regulatory Agreement](#), or other [Loan Document](#), [Credit Enhancement Document](#), or [Bond Document](#).

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

418.04 Multifamily Affordable Housing (MAH) Properties

The [Servicer](#) must collect annual compliance documentation in the form of:

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

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

- [Sponsor-Initiated Affordability Agreement](#); or
- [Affordable Regulatory Agreement](#).

The [Servicer](#) must retain the annual compliance documentation in its [Servicing File](#).

418.05 Low-Income Housing Tax Credits

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

- copies of the tax and other compliance forms specified



in Part III, Chapter 7: Multifamily Affordable Housing Properties; and

- Borrower certifications of the Property's compliance with the requirements of the Internal Revenue Code regarding Low-Income Housing Tax Credits; and
- if the Low-Income Housing Tax Credits have not yet been syndicated, monthly reports from the Borrower detailing the Borrower's progress in syndicating the tax credit allocation until the syndication is completed.

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

418.06 Enhanced Resident Services

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

418.07 Expanded Housing Choice

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

Fannie Mae:

- may conduct fair housing testing for a Mortgage Loan delivered with an Expanded Housing Choice pricing incentive; and
- will notify the Servicer if the fair housing testing or any other information reveals the Borrower is not complying



with Part III, Chapter 23: Expanded Housing Choice; and may, for any noncompliance:

- require the Borrower's employees to complete fair housing training;
- require Supplemental Annual Loan Agreement Certification (Expanded Housing Choice) (Form 6620.Supplemental.Expanded Housing Choice); and/or
- notify the Borrower it is in default.

The Servicer must:

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



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



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



If the Borrower...	The Servicer must...
Is otherwise determined not to be complying with Part III, Chapter 23: Expanded Housing Choice	<ul style="list-style-type: none">- send the Borrower a Reservation of Rights Letter (Form 4804) stating the Borrower is in default; and- submit a Non-Monetary Default Borrower Request in the MAMP.

418.08 HAP Contract Approval and Releasing Restabilization Reserve

The Servicer is delegated the authority to:

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

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

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

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

Section 419

Sponsor-Dedicated Workforce Housing Properties

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



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

Section 420

MH Communities with Tenant Site Lease Protections

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

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



form;

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

The Servicer must:

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



raised MH Site Lease rents after required notice);

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

Section 421 Single Asset Entity Conversion

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

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

Section 422 Loan Document Amendments

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

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

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

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



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

Section 423 Maturing Mortgage Loans

423.01 Written Policy

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

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

423.02 Refinance Eligibility

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

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

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



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

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

423.03 Borrower Communications

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

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

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



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

423.04 Fannie Mae Communications

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

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

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

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



GLOSSARY

■ Captive Insurer

Insurance company wholly owned and controlled by its insureds, whose primary purpose is to insure the risks of its owners, and its insureds benefit from the captive insurer's underwriting profits.

Synonyms

Captive Insurer's

Captive Insurers

■ FEMA

Federal Emergency Management Agency

Synonyms

FEMA's

■ Improvements

Buildings, structures, improvements, and alterations, including the multifamily housing dwellings, now or hereafter constructed or placed on the [Property](#), including all fixtures (as defined in the [UCC](#)).

Synonyms

Improvements'

■ Risk Retention Group

State-chartered insurance company created by the 1986 federal Liability Risk Retention Act, insuring commercial businesses and government entities against liability risks.

Synonyms

RRG

Risk Retention Groups

■ Seniors Housing Property



Multifamily residential rental property with any combination of Independent Living, Assisted Living, Alzheimer's/Dementia Care, or Skilled Nursing units.

Synonyms

Seniors Housing

Seniors Housing Properties

■ **Special Flood Hazard Area**

Special Flood Hazard Area designated by FEMA.

Synonyms

SFHA

SFHA Zone